United Nations A/63/80–E/2008/67

General Assembly
Economic and Social Council

Distr.: General
19 May 2008

Original: English

General Assembly
Sixty-third session
Item 51 of the preliminary list*
Follow-up to and implementation of the outcome of the 2002 International Conference on Financing for Development and the preparation of the 2008 Review Conference

Economic and Social Council
Substantive session of 2008
New York, 30 June-25 July 2008
Item 6 (a) of the provisional agenda**
Implementation of and follow-up to major United Nations conferences and summits: follow-up to the International Conference on Financing for Development

Summary by the President of the Economic and Social Council of the special high-level meeting of the Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development (New York, 14 April 2008)

I. Introduction

1. The special high-level meeting of the Economic and Social Council with the Bretton Woods institutions, the World Trade Organization and the United Nations Conference on Trade and Development (UNCTAD) was held on 14 April 2008. The overall theme of the meeting was "Coherence, coordination and cooperation in the context of the implementation of the Monterrey Consensus, including new challenges and emerging issues".

2. The 2008 meeting was preceded by extensive consultations within the Economic and Social Council, and between the President and members of the Bureau of the Council and the management of the Bretton Woods institutions, the World Trade Organization and UNCTAD, and meetings with members of the executive boards of the International Monetary Fund (IMF) and the World Bank and members of the UNCTAD Trade and Development Board. In the course of those consultations and meetings, the agenda and the format of the special high-level meeting were discussed and agreed upon.

3. The five sub-themes that had been selected to serve as the focus of substantive discussions in three parallel round tables and two consecutive thematic debates which were held during the meeting were: (a) new initiatives on financing for development; (b) supporting development efforts and enhancing the role of middle-

* A/63/50.
** E/2008/100.

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income countries, including in the area of trade; (c) supporting development efforts of the least developed countries, including through trade capacity-building; (d) building and sustaining solid financial markets: challenges for international cooperation; and (e) financing of climate change mitigation and adaptation. The meeting had before it a note by the Secretary-General (E/2008/7) which provided background information and suggested possible questions on each of the five sub-themes.

4. The meeting featured a brief opening plenary, which included statements by the President of the Economic and Social Council, Léo Mérorès (Haiti); the Secretary-General of the United Nations, Ban Ki-moon; the President of the Trade and Development Board of UNCTAD, Petko Draganov; Ricardo Ochoa, speaking on behalf of the Chairman of the World Bank/IMF Development Committee; the Deputy Managing Director of IMF, Murilo Portugal; and the Director for External Relations of the World Trade Organization, Willy Alfaro. The opening plenary culminated with a presentation by Zia Qureshi, Senior Adviser to the Chief Economist of the World Bank and lead author of *Global Monitoring Report 2008*,[1] focusing on the current state and prospects for the attainment of the Millennium Development Goals by 2015.

5. The opening plenary was followed by the three round tables, which allowed for a free-flowing discussion among the participants. The co-chairs and lead discussants of the round tables were as follows:

Round table A: Marc Bichler, Director for Development Cooperation and Humanitarian Action, Ministry of Foreign Affairs (Luxembourg), and Chair, United Nations Advisers Group on Inclusive Financial Sectors, and Maria Luiza Ribeiro Viotti, Permanent Representative of Brazil to the United Nations, as co-chairs, with Philippe Douste-Blazy, Special Adviser to the Secretary-General on Innovative Financing for Development, and Chair, Executive Board, UNITAID, as lead discussant

Round table B: Marisol Argueta de Barillas, Minister for Foreign Affairs (El Salvador), and Juan Pablo de Laiglesia, Director, Spanish Agency for International Development Cooperation (Spain), as co-chairs, with Lakshmi Puri, Acting Deputy Secretary-General and Director, Division on International Trade in Goods and Services and Commodities, UNCTAD, as lead discussant

Round table C: Ismat Jahan, Permanent Representative of Bangladesh to the United Nations, and Håkon A. Gulbrandsen, State Secretary for International Development, Ministry of Foreign Affairs (Norway), as co-chairs, with Cheick Sidi Diarra, Under-Secretary-General and High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, United Nations, as lead discussant

6. The afternoon session featured, consecutively, the thematic debate on building and sustaining solid financial markets: challenges for international cooperation, and a special event on financing of climate change mitigation and adaptation. Each of the debates began with keynote presentations followed by an informal interactive dialogue among all participants.

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[1] *Global Monitoring Report 2008: MDGs and the Environment — Agenda for Inclusive and Sustainable Development* (Washington, D.C., World Bank, 2008).

7. Speakers during the thematic debate were Joaquín Almunia, European Commissioner for Economic and Monetary Affairs; Jomo Kwame Sundaram, Assistant Secretary-General for Economic Development, Department of Economic and Social Affairs of the United Nations Secretariat; and Christopher Towe, Deputy Director, Monetary and Capital Markets Department, IMF. During the special event on financing of climate change mitigation and adaptation, the meeting heard presentations by Olav Kjørven, Assistant Administrator for Development Policy, UNDP; Tariq Banuri, Stockholm Environment Institute; and Lucio Monari, World Bank Vice-Presidency for Sustainable Development.

8. The 2008 meeting had a significant number of participating executive and alternate directors of the Boards of the World Bank and IMF. Other participants included ministers, vice-ministers and other high-level national officials in the areas of finance, foreign affairs and development cooperation, as well as senior representatives of United Nations organizations and other international organizations (see E/2008/INF/1). Representatives of non-governmental organizations and the business sector also participated actively in the plenary meetings, round tables and thematic debates.

9. The opening statements referred to several critical issues in the current juncture. Most countries and the international community were confronting unusual challenges. The economic and development outlook was worrying. Global financial instability had increased and world output growth was decelerating substantially. Food and energy prices in international markets had risen considerably. Policymakers in developed countries were trying to restore stability in financial markets and avoid a prolonged slowdown in an environment characterized by unusual uncertainty. In many developing countries, the rise in food prices was causing serious disturbances and even riots. The United Nations and the Bretton Woods institutions had an important role to play in assisting in solving such problems.

10. The present special high-level meeting was especially important since in seven months world leaders would meet in Doha to deal with the review of the Monterrey Consensus[2] and the themes chosen for this meeting were particularly relevant for the November-December 2008 conference. In the meantime, the twelfth session of UNCTAD would be held in Accra from 20 to 25 April 2008, addressing key development issues related to financing for development; States members of the United Nations and other stakeholders would meet in New York in July 2008, in the context of the Development Cooperation Forum, to address aid-related issues; and from 2 to 4 September 2008, countries and multilateral institutions would gather at the Third High-level Forum on Aid Effectiveness in Accra. The outcomes of these three events were expected to constitute substantive inputs to the Doha conference.

11. In the opening statements, it was also stressed that a positive outcome in the multilateral trade negotiations, a major policy objective in the Monterrey Consensus, could give a significant boost to the world economy at a critical moment. The success of the Doha Round was more important than ever: this was in fact the greatest challenge that the World Trade Organization had faced. The

[2] *Report of the International Conference on Financing for Development, Monterrey, Mexico, 18-22 March 2002* (United Nations publication, Sales No. E.02.II.A.7), chap. I, resolution 1, annex.

obstacles were more political than technical and with the necessary flexibility exhibited by all partners, agreement was within reach before the end of 2008.

12. Regarding the food crisis, as indicated in the concluding remarks at the meeting, the Bureau of the Economic and Social Council, the Council at large and the Secretary-General will explore what steps could be taken towards a prompt global response to this issue. What follows is a summary of the deliberations on each of the themes agreed for consideration at the special high-level meeting.

II. New initiatives on financing for development

13. Many representatives pointed out that new initiatives on financing for development were important as regards achieving the objectives of the Monterrey Consensus. Official development assistance (ODA) was hovering around $100 billion and only five Development Assistance Committee (DAC)/Organization for Economic Cooperation and Development (OECD) members — Denmark, Luxembourg, the Netherlands, Norway and Sweden — had met the United Nations aid target of 0.7 per cent of gross national income. It was uncertain whether the commitment of the Gleneagles Summit to reach $130 billion in 2010 would be attained. Yet, donor countries should fully honour the aid commitments made at Monterrey and Gleneagles. At present, the need for further resources was evident. The fulfilment of the internationally agreed development goals, including the Millennium Development Goals, as well as resources needed for adaptation to and mitigation of climate change and for facing the energy and food crisis simultaneously required vast additional flows.

14. According to some speakers, support for a number of "innovative sources of finance", a tool suggested in the Monterrey Consensus, was gathering momentum. Several initiatives were being implemented and others continued to be explored or were at an initial stage. An air ticket levy and the International Finance Facility for Immunization had raised $300 million in 2007 and a total of $500 million was expected in 2008. The resources were being disbursed through multilateral institutions to fight pandemics among the poorest in developing countries. In the same vein, the project on Advanced Market Commitments for vaccines had also started.

15. Several participants welcomed the above developments, particularly since they viewed the funds involved as additional and often more predictable than ODA. The innovative sources had become an effective tool in development cooperation, and should be presented as such in the Doha conference. They were not a substitute for, nor should they be counted as, ODA. It was crucial to enhance the information channels regarding existing initiatives and new efforts, since this was central to encouraging new countries and other actors to enter the field. The United Nations should play a greater role in the information efforts. Many speakers noted that these new initiatives should not be burdensome for developing countries and that their impact should be thoroughly examined. It was important that efforts in this area not be scattered too widely and that the resources mobilized be distributed in a transparent fashion, preferably using traditional aid distribution mechanisms.

16. Many representatives referred to various new initiatives in the area of innovative sources of finance. The initiatives mentioned covered a vast range and included: the currency transactions tax; revenues from carbon emissions trading; use

of remittances for development purposes; repatriation of illicit funds; global lotteries; the financial transactions tax; issue of special drawing rights (SDRs); channelling resources from sovereign wealth funds to developing countries for development purposes; and the debt-for-equity initiative. At the local level, further development of microfinance with the support of donor countries, including through the European microfinance platform, also seemed particularly important. Some stressed the need for the principles of the Paris Declaration on Aid Effectiveness to be fully respected by all partners in the implementation of such initiatives.

17. It was noted that even a very low currency transaction tax (one half of 1 per cent of one basis point) would yield billions of dollars annually. Furthermore, it would help to mitigate volatility in international financial markets. In respect of remittances, France was introducing a "co-development policy" to make transfer of funds by migrants available for long-term economic purposes in Africa. The co-development strategy involved tax concessions and cooperation between receiving countries and the source country, including banks. Spain was developing a project along similar lines for the productive use of migrant resources in Latin America. Regarding SDRs, two proposals were advanced: issuing SDRs periodically to finance development and issuing SDRs for confronting severe liquidity problems in developing countries. With respect to sovereign wealth funds, several participants supported the initiative of the President of the World Bank in respect of creating equity investment platforms and benchmarks to secure the allocation of 1 per cent of the assets of sovereign wealth funds as investments in infrastructure in Africa.

III. Supporting development efforts and enhancing the role of middle-income countries, including in the area of trade

18. Many representatives stated that middle-income countries had common needs and that enhancing international cooperation efforts to support their development was essential. Middle-income countries needed to reduce their financial vulnerability and develop solid and inclusive domestic financial markets. They needed to accelerate technological development so as to be able to compete while paying higher wages than low-income countries. It was vital to strengthen their institutions and consolidate national capacities while improving physical infrastructure. It was important to enhance policymaking on the basis of improved statistical data. It was critical to ensure an effective and efficient tax system, one leading to an increase in revenues which would allow for strengthened policies for social protection and poverty reduction. Middle-income countries needed to prevent capital flight, and to counter abuse and evasion engaged in through transfer prices and tax havens.

19. A number of participants noted that, while middle-income countries had many needs in common, they were nonetheless heterogeneous and required customized solutions and instruments. For example, some of those countries were prone to macroeconomic instability and largely depended on commodity markets. A considerable number of them had substantial pockets of poverty. Several among them, albeit still a minority, had significant access to international financial markets. In the last 25 years, output growth and export performance of middle-income countries had been quite uneven. A large number, but not all, had experienced serious financial and debt crises. Some relied on tourism and exports of services

which made them vulnerable to income fluctuations in developed countries. Many of these countries were islands likely to be severely affected by climate change.

20. According to several speakers, international support for the development efforts of these countries was particularly important with respect to preventing regression and speeding up poverty eradication programmes. There were a number of areas in which the collaboration of multilateral institutions — in particular the United Nations, the Bretton Woods institutions and the World Trade Organization — and developed countries could be particularly effective. These areas included science and technology development, improved market access, enhancing infrastructure investments, aid for trade, investment promotion of small and medium-size enterprises, transfer of clean technology, energy conservation and investments in new energy sources, and enhancing South-South and triangular cooperation. Vigorous proactive cooperation policies in these areas would help middle-income countries to realize their potential.

21. Many representatives stated that it was important that developed countries and multilateral institutions consider innovative approaches to supporting development efforts of the middle-income countries, which received only small amounts of ODA. It seemed necessary not to focus exclusively on gross domestic product (GDP) when considering criteria for providing assistance to these countries. Additional ODA as well as flexible policies of donors and multilateral institutions could significantly enhance key development programmes and poverty eradication projects in the middle-income countries.

22. Some speakers underlined that not only efforts to eliminate corruption but good governance in all its dimensions was necessary for sustainable development. Two components were particularly important: public policies to achieve equitable distribution of benefits, and measures leading to the empowerment of women and their full participation in economic activity.

23. Several discussants pointed out that given the aggregate size of the population and the GDP of middle-income countries, their representation in international rule-making and standard- and norm-setting should be increased. It was noted that the voting power of these countries and of developing countries as a whole had been recently increased in IMF. Moreover, the members of the Fund had agreed to revise the quota every five years.

24. A number of speakers stressed the importance of remaining vigilant regarding trade barriers. The recent rise in protectionism was alarming. A breakthrough in the multilateral trade negotiations was essential, particularly as open investment and trade policies would lead to accelerating economic growth in middle-income countries. At the same time, risk mitigation and public/private partnerships could be instrumental in promoting investments, including in infrastructure. Still, at the domestic level, it was critical to enhance education, since upgrading technology so as to compete internationally required high-skilled people.

25. Some representatives stated that there was a need to revise economic models, since the market model alone might not be suitable for the development of middle-income countries. It was noted that promoting a code of conduct for transnational corporations was necessary, particularly in the case of extractive industries, so as to provide native people with a minimum income. Also, greater accountability of lenders and borrowers was required to avert new debt crises.

26. It was noted that an international forum within which to discuss issues related to middle-income countries and articulate a plan for collective action designed to support their development efforts was desirable. Numerous delegates expressed their belief in the need for a mandate within the United Nations to meet the challenges of the middle-income countries. These countries were partners in development. They could also be instrumental, through South-South and triangular cooperation, in assisting development in lower-income countries. It was stated that middle-income countries as a group should be better organized and that multilateral development institutions should pay more attention to their needs. Moreover, the creation of a United Nations agency or office charged with taking up issues and concerns of middle-income countries should be considered.

27. Several representatives called attention to the Namibia conference on the middle-income countries to be held possibly later in 2008. Initial preparations were already under way. The Namibia conference would offer an important opportunity to reaffirm and consolidate the progress made in the Intergovernmental Conference on Middle-Income Countries, sponsored by the Government of Spain and held in Madrid on 1 and 2 March 2007 (see A/62/71-E/2007/46, annex for a summary of the proceedings), and the Second International Conference on Development Cooperation with Middle-Income Countries, sponsored by the Government of El Salvador and held in that country on 3 and 4 October 2007 (see A/62/483-E/2007/90 for the Consensus of El Salvador and the executive summary). The Namibia conference would also solidify the recognition of the Madrid and El Salvador Conferences within the United Nations system and, through its own outcome, feed into the financing for development process leading towards the Doha conference.

IV. Supporting development efforts of the least developed countries, including through trade capacity-building

28. Many speakers underscored the fact that while the least developed countries had experienced progress in the current decade, the current economic juncture was particularly challenging for them. High food and energy prices made more difficult the efforts to address long-standing problems: inadequate economic structures, precarious social development and a fragile physical environment. Least Developed Countries were unlikely to attain the Millennium Development Goals. Moreover, it appeared improbable that the goals of the Programme of Action[3] for the Least Developed Countries for the Decade 2001-2010 would be met. Moreover, several of the least developed countries were post-conflict countries where strenuous domestic efforts as well as special assistance were required to restore social cohesion and the economic growth impetus.

29. In the view of a substantial number of participants, a new impetus for the development of agriculture was important, as well as increasing attention to the expansion of agribusiness in those countries. The support of donors and international institutions was necessary to enhance their food production as a matter of urgency. The response of the World Bank, which had considered short-term and long-term measures to cope with the current food problem, was a valuable step forward. In fact, the Bank was addressing not only immediate needs but also food

[3] A/CONF.191/13, chap. II.

security in the long run and the requirements for effective safety nets in this difficult current period and beyond. In the short run, it was critical that food aid to many Least Developed Countries be increased as a matter of urgency.

30. Numerous representatives emphasized the role of international trade in economic growth and modernization. It was important that Least Developed Countries integrate trade policies into their national development strategies. The multilateral trading system had much to offer to Least Developed Countries, particularly if an adequate business environment prevailed in those countries. In such a climate, exports could expand and employment prospects would improve, with a positive impact on poverty alleviation. A friendly business environment would also attract foreign direct investment (FDI). It was the view of several representatives that, although Least Developed Countries had undergone a period of liberalization, this had not translated into much higher rates of economic growth. In the meantime, they had to confront substantial barriers protecting agricultural production in developed countries.

31. Various speakers called for duty-free and quota-free access for all exports of least developed countries to developed countries. Yet, market access was not enough. It was essential to expand the export capacity and competitiveness of these countries. Building adequate trade capacities required action on several fronts: policies to enhance the business environment, human resource development, adequate infrastructure, productive investment, and the requisite financing. Moreover, market access had to be predictable. Many representatives stressed that Aid for Trade was crucial and that it should be scaled up.

32. Several participants underlined the role of Aid for Trade and the Integrated Framework for Trade-related Assistance to Least Developed Countries — which included areas such as trade facilitation, environment and labour regulations — in respect of their taking full advantage of trade opportunities. This was even more important if the current multilateral trade negotiations led to an agreement that included full implementation of the Doha Development Agenda. Some stressed the vital role of physical infrastructure, in particular the provision of electricity, as an erratic electricity supply could cause severe disruption of many industrial activities. Together with improved transport and communications, reliable energy supplies were critical for a dynamic export sector. It was suggested that ODA could be redirected to these areas. Also, several participants underscored that developed countries were failing to deliver ODA for least developed countries at a level commensurate with long-standing aid commitments. It was stressed that resources for Aid for Trade should be additional and should not be linked to ongoing trade negotiations.

33. Most least developed countries were small economies. It was pointed out that regional economic integration would facilitate their taking advantage of economies of scale and would help these countries integrate into the world economy. It would provide the opportunity to diversify and enhance the manufacturing sector, which was a strategic objective in countries dependent on primary commodity exports. More generally, broad South-South cooperation — encompassing trade, monetary, financial and technical assistance and including triangular cooperation — could be particularly beneficial for these countries.

34. A number of representatives stressed the need to foster small and medium-sized enterprises in Africa. Governments, assisted by multilateral development

institutions, could promote the development of this sector. Such development was one of the foundations for the flourishing of the private sector and deserved attention. It was noted also that, for a substantial number of least developed countries, remittances from migrant workers played a significant role in the economy even if the bulk went to private consumption. It was important to consider exploring ways to orient such resources towards productive investments, including through the collaboration of the members of a country's professional diaspora. The World Bank could help in achieving that task. Some participants pointed out that, while it was appropriate to consider policies designed to enhance the development impact of remittances in receiving countries, the flow of remittances, inasmuch as they were basically international transfers of individual labour earnings, should not itself be a substitute for development assistance.

35. Several participants highlighted the fact that country ownership was indispensable for adequate implementation of policies and programmes. An explicit national development strategy could assist in strengthening ownership by identifying policy priorities, their sequencing and respective instruments — including financing. In particular, poverty reduction strategy papers should be negotiated locally with a wide range of stakeholders, and should include parliamentary oversight. For many least developed countries, public sector reform was particularly important, as was enhancing the tax system, in particular so as to curtail evasion. Gender equality and an active role of civil society were also highlighted by some speakers. According to several participants, measures to prevent corruption, reduce flight capital and eliminate illicit transfers were also necessary in a number of these countries, as were efforts to recover the illegally acquired funds deposited abroad. Regarding the latter, the launching of the joint United Nations Office on Drugs and Crime-World Bank Stolen Asset Recovery Initiative was a very important step. Also, it was noted that Norway had established a task force on curbing capital flight and illicit transfers.

36. Numerous speakers stressed that the key to effectively addressing the challenges described above lay in Governments' mustering the political will to reform and the international community's effective support of the reform efforts. The Doha conference in late 2008 would provide the opportunity for all relevant actors to show their commitment.

V. Building and sustaining solid financial markets: challenges for international cooperation

37. To a large extent, discussants focused their presentations on the current financial turmoil, which had originated in the United States of America but whose reverberations were being felt in all regions of the world. After years of relatively easy access to liquidity and virtually unconstrained leverage, the global financial system was now firmly in the grip of a de-leveraging process accompanied by considerable financial turbulence. Reasonable financial stability could be achieved only when investor confidence had been restored. In the meantime, the de-leveraging process was leading to enormous losses. The potential financial losses had been estimated to be close to $1 trillion and were not confined only to the sub-prime mortgage market. The turmoil was affecting other financial markets in the United States and virtually every other country. A global turmoil required a global

response. While instability had decreased somewhat after actions by large industrialized economies, longer-term stability remained a major challenge. The systemic nature of that challenge made this issue a key consideration on the road to Doha.

38. It was noted that countries in Eastern Europe were being adversely affected by the financial turbulence as spreads had increased significantly. Most developing countries had been largely insulated from the current turmoil. This did not imply decoupling from industrialized economies, since globalization remained strong and there would be some significant deceleration of the robust growth pace of previous years. Besides, many food- and energy-importing developing countries would face severe difficulties as a consequence of the escalation in the prices of those goods.

39. According to the discussants, there had been a convergence of views on the origins and causes of the crisis. The widespread loss of confidence in financial markets after the explosion of the price bubble in the housing market had been due to several factors: lack of market transparency; gaps in the prudential framework; inadequate risk management and risk measurement in key financial institutions; and concerns about the so-called non-organized markets and the role of credit agencies. The policy response to the turbulence in financial markets in the United States had focused on averting a credit crunch and had consisted mainly of strong support to inter-bank markets, enhanced bank disclosure, bank recapitalization and supervisory actions to deal with stressed institutions and the stocks of impaired assets. In October 2007, the European Union (EU) Finance Ministries had also identified four key actions to deal with the financial turmoil: improving financial transparency, particularly of banks; upgrading valuation standards, especially illiquid instruments; strengthening the prudential framework for the banking sector; and investigation of structural market issues, such as the role played by credit rating agencies and the risks involved in the new forms of securitization.

40. It was pointed out that at the recent Spring Meeting of the IMF International Monetary and Financial Committee, the approaches described above had been reaffirmed by the Finance Ministers. The Committee had also endorsed the recommendations for future actions contained in the report of the Financial Stability Forum. Indeed, in the medium term, the weaknesses of the financial system had to be addressed at a fundamental level and in this regard, the report provided guidelines for action in all key areas.

41. It was further noted that while every country had the right to tailor its policy response to its own specificities and institutional setting, a decision to "go at it alone" would be a mistake for various reasons: (a) it would imply ignoring the reality of globalized financial markets where differences in market regulation and oversight could create competitive distortions and the opportunity for inadequate regulatory arbitrage; (b) the country would miss the opportunity to learn from policymakers in other parts of the world, particularly with respect to how markets work and respond under stress; (c) financial markets reacted more favourably when authorities acted in concert. The current turmoil offered an opportunity to forge a new common approach; it was important not to let this opportunity to reform the international financial architecture slip by. Here was also an opportunity to strengthen IMF through that institution's playing a leadership role in the resolution of the confidence crisis.

42. There was a convergence of views among discussants with respect to the fact that a coordinated long-term response to global financial instability was essential. It was pointed out that emerging markets should be included in the collaborative approach to that response. Regarding future actions, the policy response should include, inter alia, reinforcing credit discipline, tightening regulation of and oversight over mortgage originators, stricter application of consolidated supervision, improvement of liquidity risk management and strengthening cross-border supervisory cooperation. Moreover, it was stressed that large and persistent global imbalances also involved serious risks for financial stability and should continue to be at the top of the international policy agenda.

43. It was pointed out that lessons from the past had shown that financial liberalization, and particularly an imprudent opening of the capital account by developing countries, undermined many policies designed to advance economic growth and avoid crises. Also, liberalization made macroeconomic management and the implementation of counter-cyclical policies more difficult. To effectively support economic growth in developing countries, a number of international cooperation policies related to the financing for development process seemed critical. These would entail: (a) strengthening crisis prevention; (b) enhancing crisis management mechanisms; (c) expanding development finance; (d) more equitable governance of international financial institutions; (e) effective ownership and adequate policy space; and (f) increased regional monetary and financial cooperation.

44. Numerous representatives stressed that a smooth functioning of the financial markets was a precondition for sustainable growth, higher standards of living and economic and social progress. Yet, the ongoing financial turmoil had uncovered serious weaknesses in the existing international financial architecture. Two considerations appeared particularly important in strengthening crisis prevention: (a) since constant financial innovation was presenting a major challenge in terms of translating risk analysis into policy action, it was necessary to enhance capital and disclosure requirements and promote stronger market discipline; (b) there was a need for increasing early warning capabilities, including a strengthening of the role of IMF in oversight of macrofinancial stability. Regarding regulatory cooperation, inter-country dialogues as well as meetings in international forums, such as the Basel Committee on Banking Supervision, could be improved by making them more consistent, cooperative and reactive. Regarding that issue, some participants noted the scant role played by IMF, an institution with broad membership. Most of the dialogue took place in, and most of the recommendations emerged from, meetings of a limited group of countries or institutions such as the Basel Committee which were hardly representative of the whole international community. It was also noted that IMF had warned of the looming financial crisis but did not have effective tools for influencing its members as regards reorienting their policies.

45. Many delegates stated that the reform of the international financial architecture was essential. A key issue was the legitimacy and credibility of the Bretton Woods institutions. The agreement reached in the Spring Meeting of the International Monetary and Financial Committee, which would increase the voting power of developing countries, had been a positive step in this direction. Also, it appeared crucial to support the IMF Medium-term Strategy which included an important and valuable role for the Fund in low-income countries.

46. Some participants stressed that the central challenge was to make the international financial system work for development. This required equitable representation of developing countries in economic decision-making bodies. The recent agreement in the International Monetary and Financial Committee regarding the voting power of developing in countries IMF was clearly insufficient. To build and sustain solid financial markets, it was imperative to address effectively the systemic issues that had contributed to the financial crisis. The growing importance of instruments such as hedge funds and private equity funds posed a significant threat to financial stability. Notwithstanding, the international financial system lacked supervisory bodies able to control complex instruments and most derivatives. Moreover, unregulated offshore centres and tax havens facilitated capital flight and tax evasion. It was necessary to combat capital flight and transfer of funds. One key measure would be to upgrade the United Nations Committee of Experts on International Cooperation in Tax Matters into an intergovernmental entity. Its agenda should contemplate the inclusion of measures devised to combat tax evasion and illicit capital flight. In the longer run, a world tax cooperation organization could be considered. Also, it was important to consider the creation of a committee on financing for development, or a similar body, with a view to enhancing the effectiveness of the dialogues of the United Nations, the Bretton Woods institutions and the World Trade Organization on an integrated review of the six areas of the Monterrey Consensus.

47. A number of speakers pointed out that financial liberalization should be a prudent and gradual process. Some were of the view that liberalization of capital flows had resulted in considerable gains for developing countries and had helped development. Still, enhancing supervision and prudential regulation were crucial to ensuring more permanent benefits. Indeed, both enhanced regulation and supervision were critical as developing countries moved further into securitization.

VI. Financing of climate change mitigation and adaptation

48. In the introductory remarks by discussants, it was pointed out that climate change posed an enormous challenge and that confronting that challenge was a major obligation of the international community. Its disproportionate impact on the world's poorest citizen could erode gains that had accrued over generations. For the 2.6 billion people in the world who were living on less than $2 a day, representing some 40 per cent of the world's population, climate change presented a significant threat and in this regard, inaction could endanger significantly the achievement of the internationally agreed development goals. Yet, confronting this severe problem could also offer an opportunity to address in a comprehensive manner long-standing developmental problems.

49. It was noted that some of the early impacts of global warming in several areas that were of relevance to human development had already become manifest. An increased exposure to drought, changed rainfall patterns and increased temperature could reduce productivity in agriculture and thereby affect the world's food supply. Changes in climate would dramatically change patterns of water distribution and the sustainability of water systems. Climate variability and change might cause death and disease through natural disasters, such as heatwaves, floods and droughts. In addition, the courses of many important diseases were highly sensitive to changing temperatures and patterns of precipitation. Rising sea levels could displace millions

of poor people in developing countries and were of particular concern to small island States. The resilience capacity of many ecosystems was likely to be exceeded in the present century by an unprecedented combination of climate changes and their accompanying disturbances.

50. Many representatives stressed that it had been recognized that the distribution of causes and effects of climate change was highly uneven across developed and developing countries, as reflected by the principle of "common and differentiated responsibilities" in the United Nations Framework Convention on Climate Change[4] and the Kyoto Protocol thereto.[5] The Convention should serve as the main framework for the response to climate change; and a central issue was to ensure appropriate financial transfers from the industrialized to the developing countries to assist the latter in achieving both adaptation and mitigation.

51. It was noted that realistic targets for carbon dioxide (CO_2) reductions would be essential for both developed and developing countries. In order to achieve the target set by the Intergovernmental Panel on Climate Change (IPCC) for an 80 per cent reduction of carbon emissions by 2050, the international community would have to implement far-reaching policy measures. While the modification of the Panel targets would be a risky option, feasible economic instruments would have to be developed to enable developing countries to make up for their enormous shortfalls in energy supply, without endangering their economic growth paths and poverty reduction efforts. A considerable number of speakers stated that priorities with respect to needs and additional support should be identified by developing countries themselves. A coherent and integrated response at the global level to climate change should recognize ownership and alignment.

52. It was pointed out that the international carbon market had grown substantively over the last years. Emissions trading and other Kyoto-inspired market-based mechanisms, such as the Clean Development Mechanism, engaged the private sector, stimulated investment and gave emitters some flexibility in respect of how they could meet their emissions-reduction commitments. However, for the Clean Development Mechanism to be truly effective, it must specify clearer goals and would have to be scaled up substantially. It was further noted that the implementation of carbon taxes at the global level would be highly regressive, if carried out with a complete disregard for their distributional impact.

53. Numerous representatives referred to the importance of public and private investments in new technologies for mitigation of, and adaptation to, climate change. They stated that it would be important in this regard to focus on the development of new technologies in the public domain and not solely on proprietary technologies. Many recognized that financing mechanisms for international targets on climate change should be based on income, capacity and responsibility. Targets for conventional ODA directed towards the attainment of the Millennium Development Goals should be separated from financial targets for climate change mitigation and adaptation. The resource mobilization for climate change policies would have to be additional to current ODA levels, which would require substantial transfers from industrialized to developing countries through which to assist the latter with both mitigation and adaptation. A global sustainable development

[4] United Nations, *Treaty Series*, vol. 1771, No. 30822.
[5] FCCC/CP/1997/7/Add.1, decision 1/CP.3, annex.

strategy that mobilized new investments should reduce both greenhouse gases and poverty. The existing financing mechanisms should be utilized more effectively before new instruments were created.

54. Some speakers emphasized that the increased focus of the international community on climate change should not lead to a situation in which other important basic development needs would be sidelined. A long-term and integrated development perspective is needed, as climate change policies should not distract attention from issues such as poverty alleviation, employment-creation and infrastructure development. Also, some participants referred to an apparent contradiction in the approach to climate change. While the biofuels boom might have environmentally friendly implications, some observers argued that it had contributed to the food crisis affecting the world's most vulnerable populations.

55. Many delegates stressed that the most vulnerable economies, such as the least developed countries, small island developing States and a large number of low-income countries, would be hit the hardest by climate change and that the poorest people would often be the most adversely affected. Addressing this problem would require the scaling up of additional sources of finance for these nations. Small island States and low-line coastal countries, for instance, should not be obligated to take out loans in their efforts to adapt to rising sea levels, since the phenomenon was caused by the carbon footprints of other countries. Grants or highly concessional resources would be necessary. It was further noted that the most vulnerable countries did not have the capacity to cope with and recover from climate shocks. Since it could be expected that humanitarian disasters associated with extreme weather events such as droughts and floods would become more frequent, intense and disruptive, effective disaster management should be made available to these nations.

56. Many representatives emphasized the commitment of the World Bank to addressing mitigation and adaptation efforts and welcomed the Bank's contribution to the implementation of international efforts to deal with climate change. The proposed climate investment funds that would be provided by the World Bank for the deployment of existing and new climate-friendly technologies were acknowledged to be an important mechanism in the fight against climate change. It was noted, however, that the mechanism would need to be scaled up substantially and that its governance structures would need to be equitable. It was also noted that while the climate change policy framework of the World Bank constituted an important contribution to the global policy response to global warming, Bank initiatives as well as other international initiatives should make the principles and guidelines of the United Nations Framework Convention on Climate Change their basis for action.

57. A considerable number of participants called upon countries and key stakeholders to give the issue of climate change a prominent role in the Doha review conference. This should include deliberations on the need for appropriate sources of finance for the mitigation of, and adaptation to, climate change and on addressing the threats posed by global warming to the achievement of the Millennium Development Goals.

United Nations E/2008/68

Economic and Social Council

Distr.: General
20 May 2008

Original: English

Substantive session of 2008
New York, 30 June-25 July 2008
Item 2 (d) of the provisional agenda*
High-level segment: thematic discussion

Theme of the 2008 high-level segment of the Economic and Social Council: Promoting an integrated approach to rural development in developing countries for poverty eradication and sustainable development, taking into account current challenges

Report of the Secretary-General

Summary

The ministerial declaration on promoting an integrated approach to rural development in developing countries for poverty eradication and sustainable development, adopted by the Economic and Social Council at its substantive session of 2003, outlined essential elements for pursuing rural development in developing countries. Since the adoption of the declaration, there have been many developments in this area. The declaration has contributed to raising awareness regarding the importance of agriculture and rural development in achieving the Millennium Development Goals, in particular with respect to attacking poverty and hunger. Some development partners have embarked on an initiative to coordinate and enhance the harmonization of their activities. At the regional level, notably in Africa, countries have committed themselves to strengthening their efforts in promoting agriculture. At the national level, many countries have committed to strengthening their efforts to eliminate poverty and hunger.

* E/2008/100.

08-34844 (E) 130608

The challenge of rural poverty reduction is, however, even greater today than in 2003. Old challenges persist and there are new challenges of great magnitude threatening to push the rural poor ever deeper into poverty. That the increase in global food prices impacts directly on the poorest in rural areas signals the ever greater urgency of improving agricultural productivity and increasing food production. Yet, at the same time, the effects of climate change are undermining agricultural production — particularly in the more marginal areas where large numbers of the rural poor live. It is vital that an integrated approach to rural development be pursued, one demonstrating the links among environmental sustainability, agricultural productivity and rural poverty. The Economic and Social Council may wish to consider adopting a programme on rural development that articulates the role that can be played by different stakeholders in the short run as well as in the medium-to-long run.

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I. Introduction

1. The ministerial declaration on promoting an integrated approach to rural development in developing countries for poverty eradication and sustainable development,[1] adopted by the Economic and Social Council at its substantive session of 2003, outlined five essential requirements to be met in pursuing rural development in developing countries. First, rural development should be pursued through an integrated approach, encompassing the economic, social and environmental dimensions. Second, the approach should be balanced, targeted, situation-specific, locally owned, include local synergies and initiatives, and responsive to the needs of rural populations. Third, this approach should be supported by robust, broad-based and equitable economic growth as well as human resources development. Fourth, an enabling international economic environment should be created to support these efforts. Finally, partnerships at the national and international levels to foster collaboration among actors in different sectors would play a critical role in promoting an integrated approach to rural development.

2. Since the adoption of the declaration, there have been many developments in this area. Progress has been made in some domains but challenges still remain. Some new challenges have emerged in the wake of the slowing down of the global economy and the financial crisis. These are to be coupled with the consequences of climate change that are ever more imminent and the growing global food crisis. Review of the implementation of the ministerial declaration takes place against this backdrop. In addition to the review of the issue at the 2008 high-level segment of the Economic and Social Council, there are a number of other meetings being convened in 2008 to cover its various aspects.[2] The present report should be read in conjunction with the reports prepared for those meetings.

II. Review of implementation

A. Overview of the current situation

3. Considerable progress has been made towards achieving the goal of halving the proportion of people living in extreme poverty between 1990 and 2015. Between 1990 and 2004, the *proportion* of people living on less than $1 a day in developing countries dropped from 31.6 to 19.2 per cent. The absolute *number* of the extreme poor also fell — from 1.25 billion to 980 million. While the decline in the number of the extreme poor is considered to have been due mainly to the decline in their numbers living in the rural areas, the rural areas of developing countries are still home to three quarters of the extreme poor. This proportion has not changed since the last time this topic was considered by the Economic and Social Council. Closer examination reveals that the number of the rural poor has declined in East Asia and the Pacific, from 1,036 million in 1993 to 883 million in 2003. However, the

[1] See *Official Records of the General Assembly, Fifty-eighth Session, Supplement No. 3* (A/58/3/Rev.1), chap. III, para. 35.

[2] These meetings include the Council's 2008 annual ministerial review, the Council's 2008 coordination segment and the sixteenth session of the Commission on Sustainable Development (5-16 May 2008).

number of the rural poor in South Asia and sub-Saharan Africa has continued to rise and, until 2040, will likely exceed the number of the urban poor.

4. As regards hunger, the proportion of underweight children dropped from 33 per cent in 1990 to only 27 per cent in 2005. It is unlikely that the global target for underweight children will be met. If current trends continue, the 2015 target will be missed by a figure of 30 million children. It should be noted that children in rural areas are twice as likely to be underweight as children in urban areas. Along the same lines, the absolute number of undernourished people in the population decreased during the same period (by a meagre 3 million), from 823 million to 820 million, with 80 per cent living in rural areas.

5. In 2006, for the first time in recent history, the number of children dying before their fifth birthday fell below 10 million, to 9.7 million. However, child mortality is higher among children living in rural areas and in the poorest households. The under-five mortality rate is 105 deaths per 1,000 live births in rural areas, compared with 69 deaths per 1,000 live births in urban areas. Among the poorest 60 per cent of households, the under-five mortality rate is 107 deaths per 1,000 live births, while among the richest 40 per cent, 67 children die for every 1,000 live births.

6. With over 1 billion people employed therein, agriculture is the second most important sector for employment after services. Of that 1 billion, 95 per cent are found in developing countries, accounting for about half of the employment there, although the proportion is declining. Agriculture is the main employer in many developing countries, particularly in sub-Saharan Africa and South Asia, where it accounts for 65 per cent and 48 per cent respectively of full-time employment. The number of people employed in agriculture has in fact increased since 1991 in all developing regions except East Asia.

7. Agriculture is a source of livelihoods for an estimated 86 per cent of rural people. Of the developing world's 5.5 billion people, 3 billion, representing nearly half of the total world population, live in rural areas. Of these rural inhabitants, an estimated 2.5 billion are in households involved in agriculture, and 1.5 billion are in smallholder households. Most of the rural poor typically depend directly or indirectly for survival on agriculture, forestry, fishery and related activities. The poorest remain the landless, sharecroppers, whose farming plots of land are too small or too dry to provide for their needs, nomadic pastoralists and subsistence fishing communities. Indigenous peoples, principally in Asia and Latin America, represent only 4 per cent of the world's population, yet they make up 15 per cent of the world's extreme poor. Women remain among the most vulnerable and marginalized everywhere, and in many countries emigration of men from rural areas is resulting in feminization of rural economies.[3]

8. Although its share is in general declining, agriculture still accounts for a high share of the value added in gross domestic product (GDP), in certain countries: for example, 30 per cent in heavily indebted poor countries and 28.5 per cent in least developed countries. GDP growth generated by agriculture is as much as four times more effective in benefiting the poorest half of a country's population than growth generated by other sectors. Not only is agriculture an engine of growth, but it also

[3] International Fund for Agricultural Development (IFAD), "Meeting the challenge by delivering results: IFAD 2010-2012", draft VII.

contributes to development in many ways: as an economic activity, as a livelihood, and as a provider of environmental services.[4]

9. Over the past 30 years, irrigated land in Africa has increased at a rate of 1.2 per cent per annum. However, the rate of increase began to fall in the mid-1980s and is currently below 1 per cent. The annual growth rate since 1995 has averaged between 0.5 and 0.7 per cent. Irrigated land represents only less than 10 per cent of the potential in Africa, a figure that compares poorly with those of India (26 per cent) and China (44 per cent). The annual rate of growth of irrigated land area is far below the 7 per cent required to achieve the African Union target[5] of 20 million hectares by 2015. By international standards, fertilizer use is also extremely low in Africa.

10. In 2004, in agriculture-based countries, typically the poorest of all developing countries, only 4 per cent of total budgetary resources were spent on supporting agriculture. In addition, the amount of official development assistance (ODA) going to agriculture had fallen from $8 billion in 1984 to $3.4 billion in 2004, by which time it made up only 4 per cent of total ODA. Today, the total ODA to agriculture in Africa is at the level of about $1.2 billion, the same level as in 1975. Some bilateral donors have withdrawn entirely from the sector. In contrast, private investment — both domestic and foreign — in agricultural value chains is increasing rapidly in many countries. In addition, private foundations as well as new bilateral donors are becoming important sources of agricultural development financing. The Alliance for a Green Revolution for Africa, with initial support from the Rockefeller Foundation and the Bill & Melinda Gates Foundation, is an important Africa-led initiative.

11. Limited access to infrastructure severely restricts the services that are available to the rural poor, including electricity, telephones, schools, health centres, towns and markets. Approximately 700 million rural people live more than two kilometres from an all-seasons road and, in some countries, only 10 per cent of rural roads are deemed to be in good condition. Poor access to infrastructure continues to impose a disproportionate burden on rural women in parts of sub-Saharan Africa, where women spend many hours everyday on transport just to meet household subsistence needs.

12. The fact that limited access to markets, including credit and insurance, also makes the poor less able to maintain or achieve regular access to basic services and investments, such as education and health care, can ultimately exacerbate their poverty. Some 82 per cent of all children out of primary school live in rural areas. Lowest levels of secondary school attendance are in the poorest households and in rural areas. Thirty per cent of rural children in developing countries are out of school compared with 18 per cent in urban areas. In rural areas, children are likely to have to travel much further to reach the nearest school; and their parents are less likely to have been educated and to value education. In addition, it is often harder to attract good teachers to the countryside. Gender disparities are largest in poor and rural households.

[4] IFAD script for *World Development Report 2008: Agriculture for Development* (Washington, D.C., World Bank, 2007).

[5] Comprehensive Africa Agriculture Development Programme of the New Partnership for Africa's Development.

13. Seventy-three per cent of people living in rural areas have access to improved sources of drinking water compared with 95 per cent in urban areas. Every year, unsafe drinking water, a lack of basic sanitation and poor hygiene kill at least 1.6 million children under age 5 and the majority of these deaths occur in rural areas in developing countries. Sub-Saharan Africa is the region of greatest concern: rural water supply and sanitation coverage remains very low, at 42 and 28 per cent, respectively. In this region, the number of people without access to an improved water supply increased by 35 million and the number without sanitation rose by 56 million in the period from 1990 to 2004.

14. In telecommunications, the mobile sector exhibits high growth, with mobile penetration rates having averaged 40 per cent at the end of 2006. At the current growth rate, global mobile penetration is expected to reach 50 per cent by early 2008. Mobile services have been critical in enhancing access to telecommunications in many developing regions and rural areas, where fixed lines remain limited or non-existent.

15. Investment in information and communication technologies (ICT) infrastructure in Africa has improved dramatically in recent years, totalling $8 billion in 2005, up from $3.5 billion in 2000. These figures reflect an increasingly vibrant private sector investment environment, which has been stimulated by the opening of most African telecommunications markets, coupled with the establishment of independent regulators in almost 90 per cent of the countries in the region. The African mobile market has been the fastest-growing market of all regions, growing at twice the rate of the global market, with the number of subscribers having leaped from 16 million to 136 million between 2000 and 2005. Mobile now outnumbers fixed line penetration by nearly 5 to 1 in Africa. However, the penetration may not be even across regions. A study of 10 African countries in 2005[6] found that rural households had by far less access to fixed line or mobile telephones and computers than urban households, and also had to overcome much greater barriers of distance and travel time to access telephones, computers and the Internet through telecentres and cybercafes.

B. Specific steps towards promoting integrated rural development

16. The ministerial declaration adopted by the Economic and Social Council in 2003 has contributed to raising awareness on the importance of agriculture and rural development in achieving the Millennium Development Goals, in particular with respect to attacking poverty and hunger. There have been efforts among some development partners to coordinate and enhance harmonization of their activities. At the regional level, notably in Africa, countries have committed themselves to strengthening their efforts in promoting agriculture. At the national level, many countries have committed to strengthening their efforts in eliminating poverty and hunger. Public-private partnerships in some countries are also being promoted under the auspices of the Economic and Social Council among others. The United Nations system — led by three Rome-based organizations: the Food and Agriculture Organization of the United Nations (FAO), the International Fund for Agricultural Development (IFAD) and the World Food Programme (WFP) — has also intensified

[6] Alison Gillwold, ed., "Towards an African e-index: household and individual ICT access and usage across 10 African countries" (Research ICT Africa, 2005).

its efforts towards promoting rural development and agriculture. As regards social protection, a number of United Nations system organizations are jointly implementing initiatives and projects on a spectrum of issues, ranging from education to health. Despite all these efforts, there seems still to be a lack of an overall coherent framework for rural development at the country level which would coordinate all these disparate efforts. The Global Donor Platform for Rural Development is an effort being undertaken in this regard by donors and development partners.

17. At the global level, the Global Donor Platform for Rural Development,[7] initiated in 2004, brings together some 39 bilateral and multilateral development agencies, including United Nations system organizations, such as IFAD and FAO, to coordinate approaches to rural development, with a view to improving the effectiveness of aid for rural development. Among the key issues covered by the Global Platform are sector-wide approaches in agriculture and rural development, rural-urban linkages, and monitoring and evaluation of rural development. A code of conduct for agriculture and rural development programmes is being developed for effective coordination and mutual accountability among donors engaged in such programmes, with the aim of attracting increased and more effective investments.

18. At the regional level, the States members of the African Union have committed to allocating at least 10 per cent of their budgetary resources to agricultural and rural development. In addition, the Comprehensive Africa Agriculture Development Programme of the New Partnership for Africa's Development provides a framework for restoring agricultural growth, rural development and food security in Africa. The African Union Summit on Food Security in Africa, held in Abuja from 4 to 7 December 2006, requested the African Union Commission to oversee the promotion of rice, legumes, maize, cotton, palm oil, beef, dairy, poultry and fisheries products as strategic commodities at the continental level with respect to fostering greater intraregional trade and food security.

19. The International and National Alliances against Hunger have been established on a voluntary basis to mobilize action to achieve the Millennium Development Goal of halving, between 1990 and 2015, the proportion of people who suffer from hunger. Between 2003 and 2006, 95 countries had expressed interest in forming a National Alliance against Hunger. As of May 2006, 25 such alliances had been successfully organized and another 23 were in the process of being organized.

20. The United Nations Public-Private Alliance for Rural Development was established as an ad hoc initiative of the Economic and Social Council following the adoption of the 2003 ministerial declaration. The Council endorsed Madagascar in 2004 and the Dominican Republic in 2005 as its first two pilot countries, and in 2007 welcomed the initiative of the Governments of Angola and Ethiopia to serve as the third and fourth pilot countries. In 2004, the Government of Madagascar established Alliance Madagascar to promote partnerships in rural development. In the Dominican Republic, it is the Presidential Commission on the MDGs and Sustainable Development, established in 2004, that supports this work.

21. The FAO International Conference on Agrarian Reform and Rural Development, organized jointly by FAO and the Government of Brazil in 2006, can also be seen as constituting an important step towards promoting rural development.

[7] Website: http://www.donorplan.org/component/option,com_frontpage/Itemid,1/.

The Conference's final declaration,[8] adopted on 10 March 2006, presented a vision and principles for agrarian reform and rural development and emphasized the need for inclusive dialogue and coherent, ethical, participatory and integrated policies and programmes based on decentralization and empowerment at local level. It also emphasized the importance of capacity-building, technical assistance, applied research and technology development and transfer.

22. A number of United Nations agencies and organizations are collaborating on the social front. FAO and the International Labour Organization (ILO) have intensified joint efforts to promote decent rural employment, including mainstreaming the *Toolkit for Mainstreaming Employment and Decent Work*[9] as a basis for developing a rural employment strategy. There is increased collaboration among agencies on child labour in agriculture, and on efforts, in various dimensions, to strengthen social welfare and workers' health and safety in accordance with the principles of Good Agricultural Practice.

23. The United Nations Girls' Education Initiative, an active and expanding partnership of over 13 organizations, was established in 2000 to focus programmes and advocacy on girls' education, Education for All and Millennium Development Goals 2 and 3. The School Fee Abolition Initiative is now widely recognized within the international education and development community as a key mechanism for supporting countries in reaching the Millennium Development Goals on education and Education for All-related goals. The United Nations Children's Fund (UNICEF) and its partners promote policy dialogue and reporting.

24. Many specific World Health Organization (WHO) programmes serve to strengthen capacity within the formal health sector, including the Health Action in Crises (including weather-related natural disasters), HIV/AIDS, Roll Back Malaria, Neglected Tropical Diseases and Communicable Diseases Surveillance and Response programmes. The Water, Sanitation and Health Programme of WHO focuses on water resource quality, health impact assessment, intersectoral collaboration, and environmental management, with the aim of reducing the incidence of preventable water-related diseases.

25. Ecosystem services are especially critical for rural communities, in particular in developing countries. Water regulation and purification, soil retention, nutrient-cycling and pollination are just a few of the critical ecosystem services on which rural communities depend for their well-being including livelihoods, security, resilience and health. The Poverty-Environment Initiative (PEI) of the United Nations Development Programme (UNDP) and the United Nations Environment Programme (UNEP) highlights the links between environmental sustainability and poverty, by demonstrating the costs of environmental degradation and the benefits of environmentally sustainable land use, and supports Governments in increasing the priority given to sustainable agricultural practices. Under this initiative, sustainable land use, including sustainable agriculture, is promoted in the country programmes, with an increasing focus on the agricultural sector being perceived as a key to reducing rural poverty.

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[8] Food and Agriculture Organization of the United Nations, *Report of the International Conference on Agrarian Reform and Rural Development, Porto Alegre, Brazil, 7-10 March 2006* (C 2006/REP), appendix G.

[9] *Geneva, International Labour Office/United Nations System Chief Executives Board for Coordination* (2007).

26. In Western Asia, the Economic and Social Commission for Western Asia (ESCWA) collaborated with ILO and the United Nations Industrial Development Organization (UNIDO) between 2004 and 2007 in fostering employment-creation and income-generation in rural parts of South Lebanon by providing support to small producers engaged in agricultural and agro-industries. ESCWA is continuing this work by forging partnerships with other regional players, including the Arab Authority for Agricultural Investment and Development and the Arab Fund for Economic and Social Development. Work has specifically focused on fostering the creation of clusters of small producers and encouraging them to work together in agricultural projects as a means to improve the productivity and competitiveness of their efforts.

27. Rural-urban linkages are a key determinant in respect of ensuring the flows of public and private capital, people, goods and information and the diffusion of knowledge and technology from urban centres to rural areas. These flows are increasingly dependent on urban and regional infrastructure such as transportation, ICT and basic services. In cooperation with UNDP and Governments of several countries, including Nepal and Indonesia, the United Nations Human Settlements Programme (UN-Habitat) is promoting rural-urban and public-private partnership programmes, through improvement of infrastructure and services. With the aim of revitalizing local economies in the Lake Victoria region through improved agricultural productivity and the development of complementary urban markets, a regional development initiative is being promoted by several United Nations system organizations together with the Common Fund for Commodities.

28. The United Nations Development Fund for Women (UNIFEM) has supported a programme designed to assist Governments of countries in West and Central Africa in the development of coherent agricultural policies and strategies within rural areas which can strengthen the capacities of rural women. The programme is focused on implementing an action plan for the period 2004-2007 through the creation of a framework for rural development in West and Central Africa. This action plan is now used as an instrument for ensuring the integration of gender within the framework's strategies and objectives.

29. Efforts have been made to tailor programme support to the specific needs of different communities. IFAD, for example, works with particular groups, notably indigenous peoples and other ethnic minorities, in some regions. Women have been a particular focus in all regions.

30. The Consultative Group on International Agricultural Research (CGIAR), a research network of 15 international agricultural research centres, mobilizes leading scientists and agricultural researchers to promote sustainable agriculture for food security in developing countries. IFAD, UNDP, the World Bank and FAO sponsor the CGIAR network.

III. Current challenges

31. The prospects for the world economy have turned gloomy following the downturn of the economy of the United States of America. The impacts of the slowdown will be felt in many developing countries, reversing the course of steady growth enjoyed for most of the last decade. In addition, high energy prices have been affecting energy-importing countries. Triggered partly by these factors, food

prices, which had been increasing since 2001, have risen sharply in recent months, posing a threat to many developing countries, especially low-income food-deficit countries. Poor households that are net buyers of food suffer the most. While high food prices could offer opportunities to food producers, support must be extended to rural farmers so that they can also benefit from the situation. In addition, climate change poses threats, with the most serious consequences reserved for those who lack the means to prepare for, and adapt to, the adverse impacts.

32. As noted directly above, the most recent challenge has been a dramatic and alarming increase in food prices. Increasing food prices have historically contributed to political instability and unrest linked to high food prices has already occurred in a number of countries. The FAO food price index rose by 9 per cent in 2006 and by 23 per cent in 2007. By the end of March 2008, the prices of wheat and maize had risen by 130 per cent and 30 per cent, respectively, over a year, while that of rice has more than doubled since late January 2008. The price of nearly every food commodity has increased. These high food prices will jeopardize the success of the fight against hunger and the achievement of other Millennium Development Goals, if no action is taken to mitigate the impacts. The food-insecure and poor households will be the most affected. With higher prices, the poor reduce the amounts that they consume and switch to foods with lower nutritional value. There is a need to ensure the provision of safety nets and social protection for persons without access to food. While net-exporting countries will benefit and experience better terms of trade, net-importing countries will face a larger food import bill. Although commodity prices are inherently volatile because of low supply and demand elasticities, most experts expect food prices to remain volatile and high for some time, despite their gradual decline from expected peaks in 2008 or 2009.[10]

33. The magnitude of this price increase has also affected the activities of organizations engaged in humanitarian assistance, such as WFP. While the demand for food assistance increases, the ability of WFP to respond has been reduced. Food aid deliveries had declined almost continuously from 15 million metric tons in 1999 to 6.7 million metric tons in 2006, and probably declined further in 2007. Moreover, the cost for WFP to deliver food to beneficiaries has increased more than 70 per cent over the period 2002-2007. In April 2008, WFP made an extraordinary plea for an additional $755 million to fulfil its commitment for 2008 to feed 73 million people suffering from hunger. Additional funding will be required to meet the food requirement of the additional millions estimated to be at risk for hunger and malnutrition.

34. Impacts differ between countries that are net food exporters and those that are net food importers. Fifty-five per cent of developing countries are net food importers and almost all countries in Africa are net importers of cereals. According to FAO, the total cost of food imports for low-income food-deficit countries was 24 per cent higher in 2007 than in 2006, having risen to $107 billion, more than twice the bill in 2000. The terms-of-trade losses have amounted to 0.5 per cent of GDP in low-income countries since the end of 2004. In 29 countries, those losses have amounted to 1 per cent of GDP and to nearly 5 per cent of GDP in the most-

[10] See, for example, World Bank, *Global Economic Prospects, 2008: Technology Diffusion in the Developing World* (Washington, D.C., World Bank, 2008); and Organization for Economic Cooperation and Development (OECD)-FAO, "Agricultural outlook 2007-2016" (Paris, 2007).

affected country.[11] Fuel importers have at the same time endured the additional burden of higher oil prices. Many developing countries rely on imports to supplement domestic production shortfalls. Rising international prices and export restrictions imposed by some countries have made this more difficult.

35. Higher food prices also contribute to macroeconomic instability. In developing countries, with a large food share in the consumer price index, rising food prices cause inflationary pressure. Inflation in developing economies accelerated in 2007 to 5.6 per cent, up from 5.0 per cent in 2006, and in least developed countries inflation increased to 16.4 per cent from 11.9 per cent over the same period.[12] Higher food prices could also contribute to fiscal imbalances. Government expenditures on safety net programmes, whether food-based or not, will increase because of the increase in the number of beneficiaries and the cost per beneficiary. Moreover, several Governments have lowered taxes and tariffs on food to mitigate the impact.

36. Higher food prices also affect households by limiting their access to food. The most vulnerable are those who spend a large share of their income on food. They include the urban poor, the rural landless, pastoralists and many small-scale farmers and agro-pastoralists, who grow non-food crops, depend on limited livestock sales or buy more food than they sell.

37. In response to the current alarming situation, the Secretary-General has established the Task Force on the Global Food Security Crisis to coordinate the United Nations system's efforts to address the global crisis. The Economic and Social Council has organized a special meeting on the global food crisis, to be held from 20 to 22 May 2008, to raise awareness more widely and solicit stakeholders' support in international relief efforts. The High-Level Conference on World Food Security: The Challenges of Climate Change and Bioenergy, organized by FAO in collaboration with the other Rome-based agencies and to be held in June 2008, will address food security and poverty reduction in the face of climate change and in the context of energy security.

38. Climate change is another challenge that has increased the urgent need for action. Agricultural production is expected to fall in tropical and most temperate regions as a consequence of climate variability and uncertain growing-season length, decreased water availability, new patterns exhibited by pests and diseases and a loss of biodiversity. Recent analysis[13] suggests that production in developing countries could decline by between 9 and 21 per cent by 2080. Africa is expected to fare worst, but countries in all regions will suffer. Almost everywhere, it is the poorest and most vulnerable in rural areas that will be hardest hit. Temperature increases will reduce not only the yields of most crops, but also the area of arable land, particularly in Africa. Episodes of drought and heavy flooding are likely to become more frequent and severer. Crop yields could drop by 50 per cent in some countries and almost 50 million additional people will be at greater risk of hunger by 2020.

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[11] *Global Economic Prospects*, 2008, ..., p. 40.

[12] *World Economic Situation and Prospects 2008* (United Nations publication, Sales No. E.08.II.C.2), table A.6.

[13] William Cline, "Global warming and agriculture: new country estimates show developing countries face declines in agricultural productivity", CGD Brief (Washington, D.C., Center for Global Development, September 2007).

39. Given limited institutional and financial capacities at local level, these challenges posed by climate change will impact on poverty, hunger and health conditions of the rural communities. As countries are not sufficiently prepared to cope with these impacts, they need to develop response strategies and promote resilience. The living conditions of poor rural households and farmers who depend on natural resources and subsistence agriculture will likely further deteriorate.

40. The urgent situation resulting from the current food crisis warrants an immediate response. For the medium and long terms, the combination of high food prices and the already heightened threat of climate change offers the opportunity to develop well-coordinated, coherent programmes for promoting sustainable rural development, and featuring improvement of agricultural productivity. Some of the key aspects of the responses in the medium-to-long term are highlighted below.

A. Increasing agricultural productivity

41. An increase in agricultural productivity contributes significantly to poverty reduction, especially in rural areas. A study of 58 developing countries[14] concluded that a 10 per cent increase in agricultural productivity was associated with as much as a 6 per cent reduction in the proportion of people living on $1 a day. For 19 African countries, the relationship was almost one-to-one. Productivity growth is most needed in Africa. Both total and partial factor productivity grew at slower rates in the least developed countries than in other developing countries between 1961 and 2003. Least developed countries have lagged behind other developing countries in terms of both productivity levels and productivity growth.

42. The main sources of productivity growth include technological change, institutional and governance reform, and structural shifts. For Africa, increases in irrigated land and fertilizer use are among the crucial factors. Institutional and governance reforms are also necessary to ensure that the policymaking and implementation process addresses market failures, insufficient learning and innovation, and inadequate administrative and institutional capacity. In addition, sustainable rapid growth must be accompanied by structural change, in which labour and capital move from traditional low-productivity activities into modern sectors and subsectors with increasing returns. Investments in infrastructure, both physical and social, contribute to productivity increase, as elaborated below.

B. Infrastructure

43. Rural infrastructure and support services play a key role in promoting rural development, in particular in enhancing agricultural production. They influence the quality, quantity, diversity, affordability, distribution, and stability of the food supply from rural areas. Widely dispersed populations, low-volume economic activities, sparse service provision and distance between households are major challenges for cost-effective rural infrastructure which, to be overcome, require significant investments and new approaches, such as transport hubs. Provision of

[14] Lin Lin and others, "Agricultural productivity and poverty in developing countries", extension to DFID Report, No. 7946 (London, United Kingdom Department for International Development, 2001).

roads, transport, water and irrigation, power and telecommunication encompasses important elements of rural infrastructure.

44. There are 2.5 billion people who still rely on traditional fuels, such as wood, dung and agricultural residues, for heating and cooking. Only 46 per cent of rural households have access to electricity, compared with 89 per cent in cities. Reliance on traditional fuels could trap their users in poverty by diverting time from productive activities to the collection of fuelwoods. In addition, traditional fuels cause health hazards and damage the environment. Moreover, without electricity, the rural population does not have access to modern services such as electric lighting and refrigeration. Developing a policy framework and attracting investments directed towards providing access to affordable modern energy services are crucial undertakings.

45. The improvement of access to water resources and improved sanitation are important both for healthy livelihoods of the rural population and for agricultural production. Low access to safe drinking water and adequate sanitation is the root cause of many diseases that affect Africa. Improving such access is crucial in achieving the Millennium Development Goals. Agriculture is the largest user of global water supplies, accounting for at least 70 per cent of the total. By 2025, 1.8 billion people will be living in countries or regions with absolute water scarcity, while two thirds of the world's population could face water-stressed conditions. Irrigation is crucial to food production. According to FAO, there is enough irrigable land to meet future needs: in developing countries, only half of the potential is being used. While Southern Asia, Western Asia and Northern Africa will experience water resources as a major constraint, sub-Saharan Africa has the potential to expand irrigation.

46. Telecommunication constitutes an important factor in screening market information. Only 8 per cent of rural households have telephones, compared with 38 per cent in cities. Some innovative approaches are being explored that build on advances in communications technology, involving, for example, radio, cellphones, television and the Internet. Information systems keep farmers and traders abreast, inter alia, of demand and other market information, weather patterns, and available agricultural technology and services. Access to the range of information makes rural farmers and traders more competitive and may enable them to penetrate distant markets.

C. Social protection and vulnerable groups

47. It is crucial to ensure that the most vulnerable people are protected from shocks through effective social protection systems, which prevent people from falling into the poverty trap. In this regard, social protection may include assistance in the form of food, vouchers or cash transfers, as well as insurance schemes and productivity-enhancing measures for poor farmers. Social protection should be nested within countries' broader plans for development, pro-poor growth and poverty reduction. Assistance on social protection mechanisms should be context-specific and tailored to meeting local needs and capacities.

48. WFP is testing an innovative scheme entailing the expansion of the humanitarian insurance policy in Ethiopia to cover 6.7 million people. The scheme will provide cash payouts to farmers in the event of a severe drought. The scheme

provides insurance against severe weather events and builds a comprehensive risk management framework.

49. Particular attention needs to be paid to vulnerable groups of people. Indigenous peoples and minorities are often the poorest groups in the countries in which they live. Those groups are predominantly rural. The fact that disproportionate numbers of indigenous peoples and minorities live below the poverty line or in extreme poverty has been documented.[15] It has also been noted that the United Nations Country Teams have not always integrated the economic development of indigenous peoples and minorities into country programmes.

D. Climate change

50. In spite of the increasing threats posed by climate change, there is little evidence that the rural poor are receiving the help that they need to adapt to climate change. As at mid-2007, actual multilateral financing delivered pursuant to the variety of initiatives under the United Nations Framework Convention on Climate Change[16] had reached only $26 million.[17] Although bilateral and multilateral donors are gradually increasing support for adaptation, they are doing so from an extremely low base, and planning and financing for climate change adaptation are not yet core to most donor agencies' programmes.

51. Understanding the extent to which populations may be vulnerable to climate change, through combining climate models with bottom-up vulnerability assessments, will be one of the main challenges for the years ahead. Other challenges will include designing and developing concrete, cost-effective adaptation projects and programmes that help the most vulnerable to adapt to climate change, mobilizing additional financial support for their implementation, improving early warning systems and vulnerability analysis to better assess the risks associated with climate change, and improving preparedness and upscaling risk reduction activities and logistic arrangements for responding to climate-related shocks. The current food crisis is also raising the need for a thorough study of the impacts of climate change on food production.

52. Climate change is also one of the major drivers predicted to cause a decline in biodiversity. The biodiversity loss and the direct impacts of climate change on ecosystems can cause a decline in ecosystem services, affecting the well-being of people, especially that of the rural poor who are heavily dependent on ecosystem services. Therefore, climate change adaptation activities must focus on building the resilience of communities, especially rural communities which have highly limited insurance mechanisms directed against climate change impacts. The core activities

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[15] See, for example, the addendum to the report of the independent expert on minority issues of the Human Rights Council, on achieving the Millennium Development Goals for minorities: a review of MDG country reports and poverty reduction strategies (A/HRC/4/9/Add.1 and Corr.1; and the report of the Special Rapporteur of the Commission on Human Rights on the situation of human rights and fundamental freedoms of indigenous people (E/CN.4/2003/90).

[16] United Nations, *Treaty Series*, vol. 1771, No. 30822.

[17] United Nations Development Programme, *Human Development Report 2007/2008: Fighting Climate Change: Human Solidarity in a Divided World* (New York, New York, Palgrave Macmillan, 2007).

should include management and use of biodiversity as well as restoration of degraded ecosystems.

E. Biodiversity

53. A major challenge for biodiversity conservation and ecosystem restoration is to make a convincing argument for their economic and social benefits. It is important to know the total economic value of ecosystem services. Examples like the wetlands utilized for water purification in Kampala, the mangroves in Asia and the forests in Panama all demonstrate the importance of ecosystem services in reducing rural poverty and improving well-being. There is an urgent need to reflect the true value of biodiversity conservation in trade-off analyses of economic activities so as to demonstrate that the net socio-economic returns of any rural development strategy are positive.

F. Role of female farmers

54. In many developing countries, agriculture is the most important sector for female employment, especially in Africa and Asia, where women provide 42 per cent of the labourers in the sector. It has been estimated that rural women produce more than half of the food grown in the world. In South-East Asia, women provide up to 90 per cent of labour in rice cultivation. In addition, women play a key role in non-farm ancillary services, such as sale of produce. They merit targeted programmes in both extension and education, for example, for non-farm and on-farm financial record-keeping and organization. Women also engage in such activities as agro-tourism, weaving, and light manufacturing work, which often require credit and other aids for small business.

55. Despite the role that women play in reducing food insecurity through their knowledge of crop production, local biodiversity, soils and local water resources, they are often excluded from decision-making processes in new agricultural water management approaches and other projects on natural resource allocation. Women's limited access to water is also often coupled with their limited access to land. Securing access to land among poor farmers, particularly women, can lead to securing water rights, which, in turn, leads to access to other resources such as financial services and investment in farms, offering the potential to improve livelihoods and reduce water wastage.

G. Effects of increased biofuel production

56. The trend towards biofuel expansion has grown exponentially in recent years. The emerging biofuels market is a new and significant source of demand for some agricultural commodities such as sugar, maize, cassava, oilseeds and palm oil. The fact that these commodities, used predominantly as food, are now being grown for utilization in producing biofuels exerts added pressure on food prices. However, the full impact of biofuel production on food prices needs to be examined further. Disaggregated and deeper analysis should lead to policies on biofuels that are efficient, environmentally sustainable and consistent with the needs of food security.

57. In designing future policies, it is also necessary to maximize the potential opportunities. While farmers are involved in growing feedstock for bioenergy, rural workers can be employed in the transportation and processing sectors.[18] Biofuel production could also benefit poor producers in remote areas, areas that are distant from consumption centres, and where food production is non-competitive.

58. Biofuel expansion and high commodity prices can add capital inflows and create employment opportunities if institutional mechanisms are put in place to ensure that rural communities are partners in the process. Moreover, the efforts should be enhanced towards using second-generation biofuels, obtained from plant residue and animal wastes, which can minimize land-use change and eliminate the emissions associated with the current biofuels programmes.

H. Financing rural development and agriculture

59. The need for productivity increase, infrastructure, and research and development in the area of improved seeds and cultivation methods all require the injection of financial resources. The long-declining trend of ODA for rural development and agriculture must be reversed. To ensure optimal results, there is a need to promote collaboration among development partners and to ensure greater aid effectiveness, particularly for the assistance provided for rural development. New bilateral donors are becoming an important source of official assistance for agricultural development. Another encouraging sign is a rapid increase of private investment in the agricultural value chain. However, care must be taken to ensure that smallholder farmers will be included in this value chain. Further encouragement is coming from private foundations, in particular in respect of research and development.

60. Further efforts are needed to increase the access of smallholder farmers to financial resources. Building on the successes, microfinance should improve service coverage for agricultural activities. Access to financial services through ICT should also be improved, in particular in rural areas; this helps to reduce transaction costs.

I. Improving the benefits of trade liberalization

61. The Doha Round of trade negotiations is meant to be a "development round", with development and poverty reduction as its top priority. Agriculture is one of the key issues included in the negotiations. Progress has been very slow. The vexed issue of agricultural subsidies in developed countries needs to be resolved very soon so that the objective of providing support to agricultural development in poor countries may be attained.

62. Agriculture alone would produce roughly two thirds of the gains that could be anticipated from full liberalization of merchandise trade.[19] Full trade liberalization

[18] Peter Hazell and R. K. Pachauri, eds., "Bioenergy and agriculture: promises and challenges", 2020 Focus, No. 14, Brief 1 of 12, 2020 Vision for Food, Agriculture, and the Environment, initiative of the International Food Policy Research Institute (New Delhi, The Energy and Resources Institute, December 2006).

[19] Richard Newfarmer, ed., *Trade, Doha, and Development: A Window into the Issues* (Washington, D.C., World Bank, November 2005), p. 16.

is expected to generate higher incentives for agricultural production and to increase the developing-country share in agricultural trade.[20] Policies such as tax reforms to compensate for reduced tax revenues from trade and public investment in infrastructure, for example, in irrigation, roads and research and development, so as to improve agricultural competitiveness, may be required. The net food buyers in developing countries may be affected by liberalization and may need assistance if they are to adjust to the change and have the ability to eventually benefit from the liberalization. The current situation of high food prices offers an opportunity to address these issues more constructively and urgently.

J. Investment in science and technology

63. Research and development play a major role in enhancing agricultural productivity. The experience of the green revolution in Asia attests to this. In order to bring about the green revolution in Africa, suitable seeds and cultivation methods need to be developed. There is a need to increase investment in agricultural research and development, in particular as aimed at increasing productivity in Africa. Regional cooperation would be effective so as to consolidate the efforts and share the results among countries with similar ecological conditions. Public-private partnership may also be utilized for efforts to facilitate development and transfer of technology. Biotechnology offers great potential in this regard, provided that due caution is paid to human and environmental impacts. Considering the costs of development and regulatory requirements, international support is greatly needed in order to capture the opportunity offered by biotechnology.

64. As already mentioned in section III.B on infrastructure, improvements in ICT also offer an opportunity in this context by reducing the cost of processing and transmitting information, thereby facilitating access to information on agricultural technologies and market information.

IV. The way forward and recommendations

65. The challenge of rural poverty reduction is even greater today than it was in 2003. New challenges of great magnitude are threatening to push the rural poor ever deeper into poverty. The increase in global food prices impacts directly on the poorest in rural areas, who are net or absolute food buyers. For this group, there is an ever greater urgency as regards improving agricultural productivity and increasing food production. Yet, at the same time, the effects of climate change are undermining agricultural production — particularly in the more marginal areas where large numbers of the rural poor live.[21] It is vital that an integrated approach to rural development be pursued, one demonstrating the links among environmental sustainability, agricultural productivity and rural poverty. The Economic and Social Council may wish to consider adopting a programme on rural development with the following elements.

[20] *World Development Report 2008: Agriculture for Development* ...

[21] International Fund for Agricultural Development (IFAD), "Meeting the challenge by delivering results: IFAD 2010-2012", draft VII.

66. **In the short run:**

(a) **The international community should act swiftly to protect the most vulnerable against the current rapid increase in food prices. Sufficient support should be given to humanitarian agencies in order to cover the shortfall in their budgets and substantial additional resources should be provided, as the crisis requires additional funding. Necessary support should also be extended to Governments of net food-importing developing countries in order to ensure that social protection programmes are not cut back and reach those who are affected. Care must be taken so that these short-term measures do not undermine efforts over the medium-to-long term to promote rural development and agricultural production;**

(b) **The international community and national Governments should provide expanded or accelerated assistance to ensure access by poor farmers to production inputs, such as improved seeds and fertilizers, so as to enable them to maintain or expand food production in the next growing season;**

(c) **States members of the World Trade Organization are encouraged to make every effort to lead the Doha Round of trade negotiations to a successful conclusion, with real substantial benefit to development, particularly enhanced market access for developing countries.**

67. **In the medium-to-long run:**

(d) **The development partners, including the United Nations system, should:**

(i) **Improve the coordination of activities for the integration of rural development initiatives into national development strategies and increase investment in rural areas;**

(ii) **Improve assistance for productivity growth through the application of innovation, research and development. More efforts need to be directed towards bringing about the green revolution in Africa;**

(iii) **Increase assistance for building and improving infrastructure, including roads, transport, safe drinking water and sanitation, irrigation, power and telecommunication, that is necessary to improve the livelihood of the rural poor and increase agricultural production;**

(iv) **Improve assistance to programmes targeting the enhancement of women's productivity and access to income, as well as those targeting other vulnerable groups, such as indigenous peoples and minorities;**

(e) **All stakeholders should:**

(i) **Improve the understanding of the impacts of increased biofuel production on food prices, livelihoods of the poor and the environment;**

(ii) **Address the impact of climate change on the rural poor, design and develop concrete, cost-effective adaptation programmes for the rural poor, mobilize additional financial support for their implementation, improve early warning systems and vulnerability analysis to better assess the risks associated with climate change, and improve preparedness and upscale risk reduction activities;**

(iii) **Launch concrete actions designed to manage and use biodiversity as well as to restore degraded ecosystems in a sustainable and efficient manner and to ensure equitable provision of ecosystem services;**

(f) **National Governments could:**

(i) **Integrate policies on rural development into national development strategies; and the alignment of agricultural strategies with investment priorities, and the reallocation of budgetary resources to more effective productivity-enhancing policy instruments should be supported;**

(ii) **Increase public funding on research and development, forming partnership with coalitions of producers and agribusinesses involved with particular commodities or value chains;**

(iii) **Assist in the development of farmers organizations, civil society organizations and other institutions for collective action to catalyse the demand for the research and extension services that will help producers participate in markets and to ensure their benefiting from new opportunities;**

(iv) **Support policies and institutions that link public and private research centres to farmers, this being critical in diffusing new technologies and knowledge; in this regard, linking up with international sources of knowledge and tapping into the international pool of publicly available technology constitute important steps towards enabling the green revolution to take hold in Africa;**

(v) **Effectively manage the environmental impacts of climate change and natural resource depletion on food production;**

(vi) **Improve policy and regulatory frameworks for the management of growing biofuels demand and its potential impact on food security;**

(vii) **Intensify the application of science, technology and innovation to traditional agricultural practices, which would include engaging in adaptive research, and integrating knowledge with local production.**

United Nations E/2008/69

Economic and Social Council

Distr.: General
23 May 2008

Original: English

Substantive session of 2008
New York, 30 June-25 July 2008
Item 2 (b) of the provisional agenda*
Development Cooperation Forum

Trends and progress in international development cooperation

Report of the Secretary-General

Summary

In accordance with General Assembly resolution 61/16, the present analytical background report of the Secretary-General is submitted for the consideration of the Development Cooperation Forum. The report builds on discussions at the official launch of the Forum at Geneva on 5 July 2007 and at the nationally led high-level symposiums held in Vienna on 19 and 20 April 2007 and in Cairo on 19 and 20 January 2008.

The main findings of the report are:

(a) Despite progress in some areas of the global partnership for development, agreements on trade and investment as well as on the participation of developing countries in international economic decision-making are not living up to expectations. Overall, progress has not been sufficient to ensure that development cooperation will produce rapid progress towards the realization of the internationally agreed development goals, including the Millennium Development Goals;

(b) Official development assistance, excluding debt relief, has grown at less than half the rate needed to reach the Gleneagles target of $130 billion by 2010. Most donors are not on track, and most are not planning sufficiently far ahead to meet their targets. Meanwhile, increased flows from sources not part of the Organization for Economic Cooperation and Development Development Assistance Committee are helping to diversify financing while also adding to the complexity of international development cooperation;

* E/2008/100.

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(c) Aid allocation is not sufficiently conducive to the achievement of the internationally agreed development goals. While a higher proportion of aid is going to the poorest countries, allocations are often not adequately based on needs, results or the vulnerability of countries to exogenous shocks. Growing aid flows to the social sectors and governance have mirrored declines in allocations to infrastructure and production. Particularly significant is the decline in agricultural aid. Moreover, development cooperation in the form of budget and sector support is growing only slowly;

(d) The adoption of the Paris Declaration on Aid Effectiveness marked a step change in the articulation of benchmarks for progress, yet negotiations did not engage the full range of stakeholders. Moreover, the Declaration did not deal with a number of issues of key concern to programme country Governments (including conditionality), as well as issues emphasized by other stakeholders, including parliamentarians and civil society (for example accountability and transparency). Primarily occupied with monitoring aid delivery, the Paris process has not demonstrated genuine ability to change donor behaviour or to link the aid effectiveness agenda with sustainable development results;

(e) The capacities of programme countries to coordinate and manage aid are growing, with improvements in public financial management, procurement and recording, but major gaps remain in terms of analytical, policy, strategic and evaluation capacities, which receive the least support. Most capacity-building has focused on core ministries, with limited attention to the needs of parliaments, auditors and civil society;

(f) The mainstreaming of the internationally agreed development goals into national poverty reduction strategies and aid policies of donors is selective. These policy instruments also prioritize a selective Millennium Development Goal agenda of economic growth for reducing income poverty, social investment and good governance, including the rule of law, while many give little consideration to the broader agenda of equity, pro-poor growth, employment, hunger and democratic governance;

(g) South-South and triangular cooperation is a growing dimension of international development cooperation, playing a complementary role to traditional bilateral and multilateral aid. Almost all South-South development cooperation is in the form of project finance and technical assistance with little or no conditionalities attached. Around two-thirds of South-South development cooperation is provided as loans on concessional terms in line with programme country policies and therefore carrying less risk of making debt unsustainable.

The present report also makes a number of action-oriented recommendations on the above topics, including the possible future role of the Development Cooperation Forum.

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I. Introduction

1. At the 2005 World Summit world leaders recognized the need for a more effective Economic and Social Council as a principal body for coordination, policy review, policy dialogue and recommendations on issues of economic and social development. To that end, the Summit decided that the Council should convene a biennial high-level Development Cooperation Forum to review trends and progress in international development cooperation, including strategies, policies and financing, promote greater coherence in the development activities of different development partners and strengthen the link between the normative and operational work of the United Nations.

2. As part of strengthening the Council, the Development Cooperation Forum has been mandated to identify gaps and obstacles in international development cooperation with a view to making recommendations on practical measures and policy options to enhance its coherence and effectiveness. The Forum is also expected to serve as a platform for sharing experiences and lessons learned.

3. The present report is divided into three parts:

(a) Section II, which briefly summarizes progress in the implementation of the global partnership for development with focus on private flows, debt relief, trade and systemic issues;[1]

(b) Section III, which reviews specific trends and progress in international development cooperation, with particular focus on six issues identified by stakeholders in the preparatory events as of high importance for enhanced coherence and effectiveness of international development cooperation:[2]

(i) The delivery of aid commitments;

(ii) The practices and implications of allocating aid for the achievement of the global development agenda;

(iii) How the present framework for aid effectiveness could be further improved;

(iv) The progress in strengthening country capacities for aid coordination and management;

(v) The extent to which the internationally agreed development goals, including the Millennium Development Goals, are being mainstreamed into poverty reduction strategies and aid policies;

(vi) The role of South-South and triangular cooperation in international development cooperation;

(c) Section IV, which offers policy recommendations for consideration by Member States on how to enhance the coherence and effectiveness of international development cooperation.

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[1] Section II should be read in conjunction with recent reports and summaries in preparation for the Follow-up International Conference on Financing for Development in Doha, including A/62/217. Relevant reports and summaries can be accessed at www.un.org/esa/ffd.

[2] Background studies are available at www.un.org/ecosoc/newfunct/2008dcf.shtml.

4. The Development Cooperation Forum is poised to become a key mechanism for inclusive global dialogue and policy review on development cooperation issues. As a first step, the discussions at the 2008 Forum are intended to inform the Follow-up International Conference on Financing for Development, which will be held in Doha from 29 November to 2 December 2008, and the Accra High-level Forum on Aid Effectiveness, to be held from 2 to 4 September 2008. This is reflected in the focus of the present report.

5. The design of each Development Cooperation Forum will provide the flexibility to address issues high on the international development agenda, taking into account activities and events of related processes, with the aim of providing a longer-term perspective which could become the defining characteristic of the Forum.

II. Global partnership for development: mixed progress

6. The unprecedented growth of the world economy in the past five years has strongly benefited developing countries, which now account for a third of world merchandise trade and inward foreign direct investment (FDI). Developing countries also contributed more than 40 per cent of world economic growth in 2007. However, improved aggregate economic performance does not necessarily translate into poverty reduction and, as a result, the poorest countries are not enjoying a commensurate improvement in their standard of living.

Without coherent policies across the board, development cooperation will have limited impact.

7. Despite progress in some areas of the global partnership for development, agreements on trade and investment and the participation of developing countries in international economic decision-making are not living up to commitments and expectations. This should be cause for concern since without comprehensive and coherent policies on the core areas of the Monterrey Consensus, development cooperation will have, if any, a very limited impact.

Private flows increasing but trade outlook remains bleak

8. Progress on private flows is largely associated with the sizeable increase in the scale of such flows to developing countries since 2002, with net flows almost reaching a record of $1 trillion in 2007. Middle-income countries accounted for the vast majority of the $456 billion in FDI flows to developing countries, with five countries accounting for 46 per cent of such investment.

Private flows are growing, yet with little focus on the anti-poverty aspect of investment.

9. FDI remains concentrated in the primary commodity sector, in particular oil. The surge in investment in extractive industries has been especially strong in Africa. In Asia, foreign investors have been attracted to manufacturing exports, and in Latin America FDI has spanned only a few sectors, mainly in response to privatization. While some of these flows have stimulated exports, the multiplier effects on employment have been weak. Similarly, the increase in investment flows to

developing countries has been matched by high volatility, although there has been little focus on the pro-poor aspect of investment.

10. Remittances to developing countries, which, in addition to consumption, contribute to savings, credit mobilization and other forms of investment, have grown sharply (to $240 billion in 2007).

11. In terms of international trade, in recent years a limited number of developing countries have played an increasingly significant role. Developing countries accounted for a record 34 per cent of world merchandise trade in 2007, with least developed countries accounting for 0.9 per cent, owing primarily to higher commodity prices. South-South trade is currently growing faster than global trade, although two-thirds of this trade is concentrated in Asia. Trade is also increasingly concentrated among partners in proliferating regional trade agreements (currently 45 per cent).

Benefits of international trade remain unevenly distributed.

12. Progress with regard to broadening the benefits of international trade remains slow and uneven. The bleak outlook for the Doha Round of trade negotiations is of particular concern, with growing sentiment that the needs and interests of developing countries are not being taken fully into account. Despite agreement, in principle, on duty and quota-free access to developed markets for least developed countries, export and production subsidies and dumping continue to cause global trade distortions. Tariffs paid by developing countries to other developing countries also continue to impede trade flows.

13. As demonstrated by the problems currently being caused by increasing oil and food prices, there has been little progress in protecting developing countries from commodity instability and external economic shocks. The effectiveness of current compensatory facilities is limited, in part due to conditions that deter countries from responding to shocks and to choose, instead, to opt for tightening their fiscal and monetary policies.

Some advances in debt relief

14. Advances in debt relief have come primarily from the Heavily Indebted Poor Countries Debt Initiative and the Multilateral Debt Relief Initiative, which are expected to reduce the debt stock of 31 countries by more than 90 per cent, or $100 billion. With debt servicing for such beneficiaries reduced, on average, by 2 per cent of gross domestic product (GDP), poverty-reducing expenditures increased from under 7 per cent to more than 9 per cent between 2000 and 2006. Many beneficiaries of the debt initiatives are still perceived, however, as being at high risk of incurring renewed unsustainable debt.

Increases in aid due to large scale debt relief.

15. Most debt relief has not been additional to targeted aid increases, with a portion of it representing transfers among creditor agencies to wipe out unpaid debts. In fact, debt relief as a share of donor aid peaked at 23 per cent in 2005, falling to 8 per cent in 2007. More relief may be needed for a wider range of

developing countries with external debt problems, taking into consideration growth requirements and the policy space required to overcome debt distress.

16. A significant number of middle-income countries, with predominantly private debt, are heavily indebted and likely to face debt distress in a world economy with a less favourable outlook. The present private debt restructuring approaches focus on intermediate targets, however, and do not necessarily provide these countries with a "clean slate" after a default.[3]

Progress at the country level not reflected at the global level

17. At the country level, indicators of sound policies, good governance, ease of doing business and the rule of law have been positive in developing countries in recent years. Similarly, macroeconomic and fiscal management, legal and regulatory frameworks and national development strategies have also improved.

Modest advances have been made in strengthening the voice and participation of developing countries.

18. At the same time there has been very limited progress on systemic issues, especially strengthening the voice and participation of developing countries in international financial decision-making and norm-setting. There has been recurring reform of the governance structure of the International Monetary Fund (IMF) and the World Bank has launched its own reform process, coupled with some enhancement of efforts to reinforce the capacity of developing countries to negotiate decisions within international organizations.

19. However, while the need for reform is acknowledged by all stakeholders, these modest changes do not reflect the current level of participation by developing countries in the global economy in a simple and transparent manner. In particular, developing countries continue to have very little voice in the formulation of global financial regulations, which therefore remain less adapted to their needs and capacities, let alone their development aspirations.

Global challenges ahead

Emerging global issues may undermine progress on the global development partnership.

20. As global economic uncertainties deepen, due to instability in the financial sectors in a number of advanced economies, there is growing concern that a global downturn might lead to protectionism, adversely affecting exports and investment flows to and from developing countries. Rising food and energy prices are also taking a toll on consumers around the world, especially in poor countries that are dependent on food and energy. Moreover, climate change has emerged as a new risk factor, with developing countries requiring better technology and large increases in financing to respond effectively to this global challenge. In sum, progress on the global development partnership is by no means strong enough to ensure that development cooperation will produce rapid advances towards the internationally agreed development goals.

[3] See A/62/217.

III. Recent trends in international development cooperation

A. Aid quantity: more hands not delivering enough

Aid short of commitments

21. At the end of 2007, official development assistance (ODA) stood at $103.7 billion, a 15 per cent increase in real terms since 2004. However, since 2005, ODA has fallen by almost 13 per cent in real terms and the ODA/gross national income (GNI) ratio from 0.33 per cent to 0.28 per cent. The decline in 2006 and 2007 comes on the back of one-off debt relief to Iraq and Nigeria in 2005.

Aid peaked in 2005, with a declining trend in recent years.

22. Against the actual trends, the pledges made in 2005 by donors offer less cause for optimism than they did when ODA, based on commitments, was first projected to increase from $80 billion in 2004 to $130 billion by 2010. In this context, the European Union has also set a collective ODA target of 0.56 per cent of GNI by 2010 and 0.7 per cent by 2015 for the 15 countries that joined before 2004, with a target of 0.33 per cent by 2015 for its 12 other members. Many European countries have also established more ambitious individual targets.[4]

23. Temporary peaks in debt relief do not reflect real transfers of programmable aid to developing countries. Taking this into account, the Organization for Economic Cooperation and Development (OECD)/Development Assistance Committee calculates that ODA (excluding debt relief) has increased at less than half the rate needed to reach $130 billion by 2010, and that most donors are not on track and will need to make unprecedented efforts to scale up if they are to meet their stated commitments.

24. Equally important, donors are not planning ahead to meet aid targets. According to a recent survey by the Development Assistance Committee, member countries are currently planning increases that will leave them $38 billion short of the 2010 target. Similarly, only nine members of the European Union have met the European Council goal of introducing targets for annual increases leading to 2010, although five member countries are moving towards that goal.

Diversification and fragmentation increasing

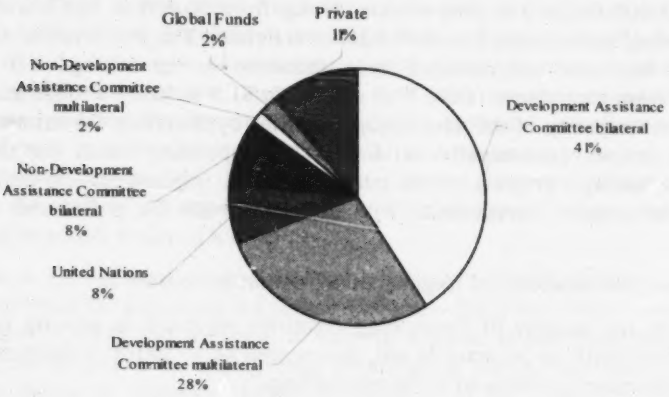
Rapid growth in sources of funding for development, in particular for South-South cooperation and private philanthropy.

25. Recent years have seen a rapid growth in sources of funding for development cooperation from outside the regular Development Assistance Committee channels, notably South-South cooperation and private philanthropy for development, which have grown, respectively, to $12.6 billion (9 per cent of total development

[4] A number of countries have committed themselves to stay above 0.7 per cent ODA/GNI, including: Denmark (0.8); Luxembourg (1.0); the Netherlands (0.8); Norway (1.0); and Sweden (1.0). Several other countries have committed themselves to achieving 0.7 per cent ODA/GNI at an earlier date, including: Belgium (2010); France (2012); Ireland (2012); Spain (2012); and the United Kingdom of Great Britain and Northern Ireland (2013).

cooperation flows) and $14.8 billion (11 per cent) in 2006.[5] Global and vertical multilateral funds (largely funded by Development Assistance Committee donors) account for around 2 per cent of these flows. Nevertheless, Development Assistance Committee donors and international organizations continue to account for around three quarters of global flows (see figure 1).

Figure 1
Sources of development cooperation: 2006



26. In terms of channels, development cooperation is becoming slightly less multilateral in character. Multilateral aid continues to represent around 40 per cent of global flows (and 50 per cent of flows from Development Assistance Committee donors), but around 50 per cent of this funding (including for the United Nations) is earmarked for specific initiatives, sectors or themes. While it is unclear whether earmarking actually enhances development effectiveness, it has been shown to lead to distortions in the management and coordination of multilateral aid.[6] There has also been some movement of funding channelled via global funds and civil society organizations, rather than multilaterals, but once again with little known of the effects on overall aid effectiveness.

Development cooperation is becoming less multilateral.

27. Recent developments include an acceleration of the proliferation of donor agencies, which are currently estimated at more than 1,000, including 56 bilateral and 230 multilateral agencies. The Governments of more than 30 developing countries now have to deal with more than 40 agencies. Proliferation has some important advantages, including a wider choice of funding sources for programme

[5] For further information please refer to the background study on "Recent trends and progress in South-South and triangular development cooperation" (see www.un.org/ecosoc/newfunct/2008dcfbckgrd.shtml).

[6] See A/62/73-E/2007/52 and A/62/253.

countries, which can enhance stability and predictability of flows by diversifying risk, especially for countries with relatively few sources. It also provides more diverse perspectives on development issues (from national and sectoral development strategies to technology and expertise transfer) and increased funding for underfunded sectors such as infrastructure and production.

Proliferation of donor agencies is accelerating.

28. Proliferation has many more potential disadvantages, however, including conflicts over development priorities and conditionalities, increased earmarking by global funds and a dramatic increase in transaction costs. As of 2005, there were more than 65,000 donor activities worldwide, up from 20,000 in 1997, with some countries having hosted more than 1,000 donor activities. The proliferation of actors in this field has been accompanied by a reduction in the average size of the contribution from each donor (from $2.5 million to $1.5 million). Proliferation also undermines the capacity of the developing countries by diverting Government staff to work as project counterparts or donor staff, spending funds on technical assistance to manage projects or on parallel project implementation units, thus increasing the costs of coordination with donors at both the global and country levels.

29. To offset proliferation and fragmentation, donors have tried to:

(a) Cut the number of developing countries regarded as priority partners. When combined with an increase in aid, this is leading to further concentration of aid in some countries, referred to as "donor darlings";

(b) Reduce the number of donors involved in a country or particular sectors via a division of labour exercise. While it may reduce fragmentation, such exercises have often been driven by donors rather than led by programme country analysis and policy.

B. Allocating aid to maximize progress towards achievement of the internationally agreed development goals

30. A key problem in international development cooperation is that the allocation of aid is not sufficiently conducive to maximize progress towards achievement of the internationally agreed development goals. This applies to allocation among developing country groups, regions, individual countries and regions within countries, as well as allocation among sectors and types of aid.

Aid allocations are not maximizing progress towards achievement of the development goals.

31. Among developing country groups, aid to the poorest countries is rising more rapidly than overall aid. In the last decade there has been a major rise in the proportion of total aid going to least developed countries (to 34 per cent) and low-income countries (to 63 per cent). Nine members of the European Union already allocate ODA in the range of 0.15-0.2 per cent of that GNI to least developed countries and another six plan to do so by 2010. Nevertheless, ODA to least

developed countries is still only 0.09 per cent of the GNI of the member States of the Development Assistance Committee.

32. Aid to Africa has fallen significantly short of the 2005 pledge of the international community to double annual aid to Africa by 2010 from $25 billion to $50 billion per year. However, excluding debt relief, aid to Africa has risen by only 10 per cent in real terms since the pledges were made. Though some Development Assistance Committee donors have made concrete plans for reallocating aid to Africa, many others will fall far short of their targets.

1. Allocation models

33. Over the last decade there has been a reduction of the "small country bias" (countries with smaller populations receiving more aid per capita). However, large amounts of aid continue to go to countries with relatively small numbers of poor citizens, which reduces the impact of such aid on the attainment of the internationally agreed development goals. Equally important, aid allocations are not correlated with measures of multidimensional poverty or needs, which go beyond per capita income, nor do they take into account "poverty-efficiency", which combines the scale of poverty in a country and the amount of poverty reduction that can be achieved per dollar of aid.

34. This is partly because most donors have yet to establish an objective and transparent basis for allocating aid across countries. Since the 1990s, several donors have adopted models that are used, to varying degrees, to determine the allocation of aid across countries or to pre-select countries to which they will provide aid. Some are based on donor-conducted assessments of the quality of policies and institutions of programme countries, which undermines the principle of national ownership due to lack of government and civil society involvement. Other donors take country needs, outcomes and results or the amount of aid a country is receiving from other donors into account to a greater degree in an attempt to balance out distortions in international aid allocation. Nonetheless, aid continues in large part to be allocated based on political, strategic and economic interests.

Aid is not allocated according to objective and transparent criteria.

35. As a result of performance-based models, the multilateral development banks have made a dramatic shift in allocation towards countries with what is regarded subjectively as "best performance" in terms of governance and policies, rather than to countries achieving more objectively measurable development results. Performance-based allocation is also increasingly influencing the selection of priority programme countries by some bilateral donors.

Aid increasing allocated to "best performers" in governance and policies.

36. Notwithstanding the importance of the quality of policies and institutions, the relationship between indicators of performance and development results is tenuous, especially if the impact of exogenous shocks on results is taken into account. Aid allocation would ideally combine maximizing progress in achieving the internationally agreed development goals with the principles of effectiveness and equity in a transparent framework, which would take into account the structural

vulnerability of countries to external shocks, particularly since aid can play a strong role in preventing such shocks and dampening their impact.

37. In this context, the bilateral allocation of funds by Development Assistance Committee donors to multilateral organizations becomes more difficult. While providing more aid via multilateral agencies can overcome strategic or economic allocation distortions by allocating more funds to low-income countries, several multilateral agencies are already emphasizing policies and institutions rather than needs or outcomes.

2. Unpacking broader trends

38. Disguised by overall trends is the fact that a considerable number of countries receive far more aid than would be expected on the basis of need or performance ("donor darlings"), as well as an almost equal number receiving much less than expected ("donor orphans"). In 2006, 15 programme countries received 60 per cent of bilateral aid. On the other hand, non-post-conflict countries, which are nevertheless facing severe internal pressures receive, on average, less than one third of other countries' per capita aid levels. This largely reflects the lack of an international system for assessing whether allocation is responding to need or results and for balancing allocation in order to ensure that countries are evenly assisted so that the international community maximizes results from aid.

Aid does not necessarily go to the poorest regions or the poorest groups within countries.

39. Within countries, many programme countries have indicated that donors tend to concentrate on regions or groups that are either closest to the capital or to decent infrastructure, are perceived as being the poorest or those with which individual donors have long-standing ties. Donors indicate that some national development strategies focus on regions or groups that support the Government rather than those with the most acute needs. As a result, within countries, aid does not necessarily go where it will make the most difference to the achievement of the internationally agreed development goals.

3. Sectoral distribution

Aid increasing to social sectors and governance, while economic infrastructure and production languish.

40. In the past 25 years, across sectors (see figures 2 and 3), there has been a dramatic increase in allocation to the social sector, including health, education and other services (up from 10-15 per cent to 30 per cent). Aid to governance has also risen from virtually zero to 10 per cent. This has been mirrored by decreasing allocation to economic infrastructure (down from 25 to 30 per cent to less than 15 per cent) and production (from 27 per cent to only 7 per cent, with a particularly sharp fall in the allocation to agriculture from 19 per cent to 4 per cent).

Figure 2
Sectoral distribution (social and related): 1980-2006
(Percentage of ODA)

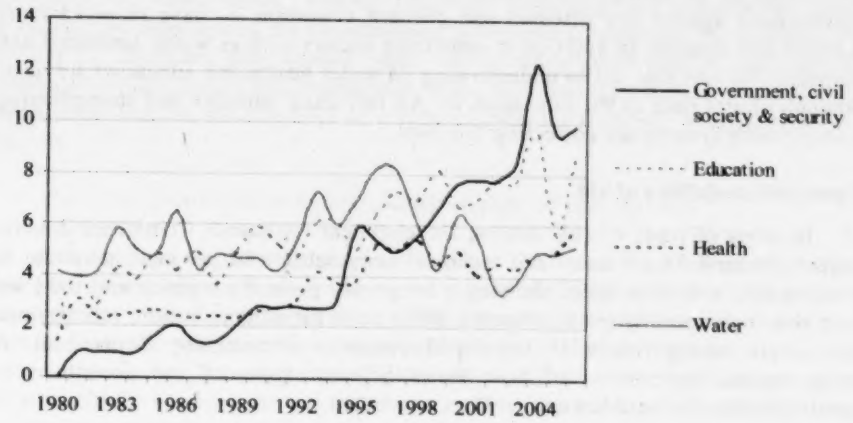
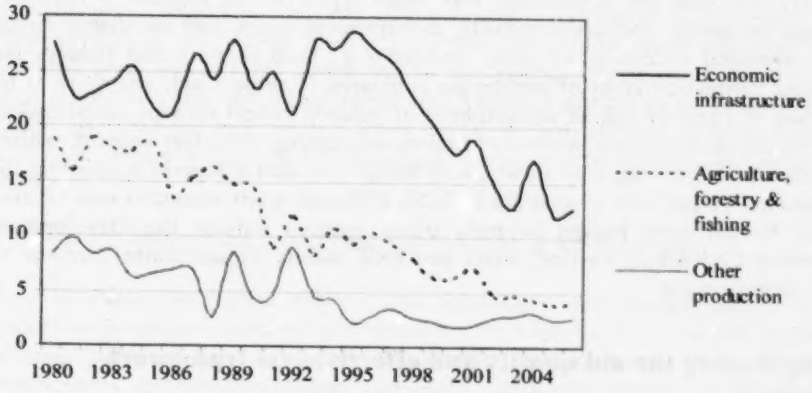


Figure 3
Sectoral distribution (economic and production): 1980-2006
(Percentage of ODA)



41. These trends have caused concern, which has recently been reinforced by analysis showing, overwhelmingly, that investment in infrastructure (transport, energy, water and information and communications technology), agricultural technology and microcredit will be crucial to attaining the income poverty and hunger components of Millennium Development Goal 1. As a result, there is growing evidence that some donors are scaling up support for infrastructure, trade and production. The recent global food crisis could conceivably have the same impact on reviving aid to agriculture.

"Quick win" interventions in social sectors have predominated.

42. Even within the social sectors, key Millennium Development Goal targets that are perceived as being more easily attainable — for example "quick win" interventions against key diseases and primary education — have received more attention and funding. In addition to penalizing sectors such as water, sanitation and nutrition, this has also led to underfunding of wider health and education services, although efforts such as the Education for All fast-track initiative and strengthening overall health systems are correcting this bias.

4. Types and modalities of aid

43. In terms of types of aid,[7] among Development Assistance Committee donors, projects (around 34 per cent) and technical cooperation (20 per cent) continue to predominate, with debt relief showing a temporary peak. Emergency and food aid have also risen recently (to 9 per cent), while costs for administration, scholarships and people taking refuge in developed countries account for 8 per cent. A comprehensive assessment of how these different types of aid contribute to sustainable development has not yet been conducted.

Budget support is more effective, efficient and sustainable ... yet it is growing only slowly.

44. However, general and sector budget support has been found to be more effective, efficient and sustainable than other types of aid, because it increases national ownership and accountability, disbursement speed and the distributional and operational efficiency of public expenditure. Such support also reduces the marginal transaction costs of scaling up compared to project aid, and there is no evidence of a greater risk of corruption or of reduced budget revenue mobilization. As a result, an increasing number of donors are turning to budget support, which, nevertheless, is growing only slowly, with budget and sector support accounting for only around 10 per cent of total aid in 2006. Although a few countries now receive almost 50 per cent budget support, many sources outside the Development Assistance Committee, vertical funds and civil society organizations continue to focus on project aid.

C. Strengthening the aid quality and effectiveness framework

45. Considering that the quality and effectiveness of aid is a critical factor in achieving sustainable development results, it is surprising that a concerted agenda to improve aid effectiveness was not established before the 2002 International Conference on Financing for Development held in Monterrey, Mexico. Since then, the aid effectiveness agenda has been deepened through the promulgation of key principles (in Rome in 2003) and monitorable indicators (in Paris in 2005).

[7] Precise numbers for breakdowns of types of aid remain hard to identify, because much technical assistance is included in programmes or projects, and sector budget support is not identified separately in published statistics.

1. Paris Declaration on Aid Effectiveness: a step change without full participation

46. The Paris Declaration on Aid Effectiveness marked a step change in articulating benchmarks for progress, yet the negotiation process did not engage the full range of stakeholders. Among countries providing aid, discussions were dominated by members of the Development Assistance Committee. Participation by developing countries was limited, with civil society organizations and private foundations contributing only marginally. While this facilitated agreement, it left the Declaration without the approval of a conventional international multi-stakeholder process.

Paris Declaration negotiations did not engage all stakeholders.

47. The process of monitoring progress since 2005 has focused attention and dialogue on aid effectiveness at the country-level. In addition, it has initiated the development of action plans by most OECD donors and multilateral agencies, as well as by developing countries for overall groups of donors. However, it has not helped developing countries to hold individual donors significantly more accountable for reaching the targets set out in the Declaration, or to lead the process by designing their own policies on development cooperation. According to a 2006 survey, the Paris mechanisms are not yet adequate for monitoring the aid commitments of donors at the global level.

48. Similarly, the aid effectiveness agenda is not yet demonstrating its ability to change donor behaviour. Assessments of progress in implementing these commitments conducted by the Development Assistance Committee and independently by programme countries indicate that donors are a long way from achieving them, notably the commitments on capacity development, programme-based approaches and mutual accountability. The poor quality of aid is particularly evident in countries that receive lower levels of aid, thereby exacerbating the distortions of aid allocation by making aid not only insufficient but also less effective.

The aid effectiveness agenda has yet to change donor behaviour.

49. The Paris Declaration did not deal adequately with several issues of key concern to developing country governments (for example, tying of aid, capacity-building, predictability, flexibility to combat shocks, policy and procedural conditionality and concessionality) and other issues championed by stakeholders such as parliamentarians and civil society organizations (including, accountability, transparency and cross-cutting themes such as gender, human rights and the environment).

2. Types of aid and capacity-building

50. Tying of aid to purchases of goods and services in donor countries is estimated to increase costs by between 25 to 60 per cent, reducing the value-for-money from aid. In 2001, Development Assistance Committee donors agreed to untie aid to least developed countries (except for food aid and technical assistance). Many donors have gone further, increasing untied aid to 53 per cent in 2006, up from 43 per cent in 2002. However, the tied status of 20 per cent of Development Assistance Committee aid is not reported to the Development Assistance Committee. Food aid,

technical assistance and aid to non-least developed countries remains tied, and a large share of untied aid is spent in the contributing country.

The tying of large portions of aid is unreported.

51. The proportion of ODA used to purchase goods and services from programme countries remains low, undermining the "first round effects" of aid spending on promotion of private sector growth in developing countries. Although some multilateral and bilateral donors give preference to local suppliers, the procurement methods of a number of donors contain distortions that favour offshore suppliers, and local and regional enterprises often lack capacity to win aid-funded contracts.

52. Progress in building capacity by transforming technical assistance has been wanting. The Paris indicators do not track the impact of technical assistance on developing national capacity and programme countries indicate that only around one quarter of such assistance builds capacity. Reports have highlighted the need for tighter monitoring of capacity-building results, programme country leadership in design and management and local or regional procurement of expertise.

3. Ensuring predictability while maintaining flexibility

53. Predictable aid enables developing countries to plan long-term development strategies, medium-term expenditure frameworks and annual budgets. This applies both to project aid, where delays can have negative effects on the real economy (such as power shortages), and programme aid, where delays in cash budget support or in commodities such as food or essential drugs can severely disrupt budget and programme planning.

Predictability has improved in some programme countries.

54. Overall, aid is generally much more volatile than budget revenue and only 60 to 65 per cent of aid flows are disbursed by donors in the fiscal year for which they are scheduled. Around 40 per cent of aid is programmed on a multiyear basis, and less than half has specific disbursement schedules included in agreements. Predictability has improved in some programme countries, however, due to budget support performance assessment frameworks containing "guaranteed tranches" and increased multiyear programming by a few donors to match costed medium-term expenditure frameworks or sectoral plans by programme countries.

Flexibility is essential in countering exogenous shocks.

55. It is important, however, that predictability is balanced with flexibility. For programme and donor countries alike, Governments may change or be renewed, with new priorities and mandates requiring different types of aid or different sectoral emphasis. Flexibility is also essential in countering exogenous shocks, whether macroeconomic (such as import price rises or export price falls) or natural disaster-related. This is one of the poorest-performing aspects of aid, with flexibility of only around 15 per cent in either respect.

4. Policy and procedural conditionality

56. A key cause of unpredictability is policy conditionality. Many Development Assistance Committee donors and multilateral organizations have traditionally functioned on the basis of negotiating conditionalities for disbursing aid, although research reveals that, in the vast majority of cases, policy-based conditionality is ineffective, intrusive and unduly restrictive of policy space. In addition, conditions are often unnecessarily numerous and detailed, adding to transaction costs, leading to aid being delivered pro-cyclically. Thus, when a country's policies go off-track, reducing growth or budget revenue, aid flows also fall, accelerating the accumulation of domestic debt or arrears or cuts in investment spending.

Policy conditionality is a key cause of unpredictability.

57. Since the mid-1990s, attempts by donor agencies to streamline conditions have had only limited results, because incentives within agencies continue to encourage this practice. These efforts have been offset, to some degree, by the proliferation of conditions associated with governance indicators. The harmonization of policy conditions via multi-donor budget support and sectoral policy matrices has also often initially led to "highest common multiples" of conditionality, with each donor adding ideas to the list. Over time, some programme countries have managed to increase budget support predictability by introducing a higher degree of transparency, as well as flexibility in interpreting compliance, which limits the immediate triggering of disbursement suspension.

Conditions associated with governance indicators have proliferated.

58. Procedural conditionality also poses significant obstacles to prompt disbursement, especially of project aid. Financial, institutional and analytical preconditions can delay the start of aid disbursements by up to a year. Disbursement procedures can add nine months, financial management and procurement procedures another year, and substantive reports and reviews may also take a year. Cumbersome programme country procedures have the same effects, delaying compliance with donor conditions or project execution if aid is disbursed following country procedures.

59. Overall, disbursement delays undermine the execution of key projects, waste resources which could be dedicated to programme/project objectives and lead to a false perception that programme countries are experiencing problems in absorbing aid. The Paris Declaration focuses on only a few of these issues[8] and ignores other key delaying factors such as counterpart funds, personnel employment, compiling reimbursement documents, customs clearance, complex procurement procedures, pre-shipment inspection and failure to decentralize the execution of procedures.

5. Additional funding on uniformly concessional terms

60. Another key issue is concessionality of funding. ODA is generally provided as grants (89 per cent in 2005-2006), and while many debt crises have been triggered by non-ODA lending, developing countries still need to borrow to finance their development. International discussions have focused on ensuring prudence in both

[8] Such as parallel implementation units.

how developing countries access loans and how lenders provide them, especially in the case of countries that have recently received debt relief or whose debt may again become unsustainable. As a result, international financial institutions have become more cautious about lending non-concessionally to programme countries, the multilateral development banks have introduced cuts in new concessional funds for countries that borrow irresponsibly and OECD has promulgated guidance to discourage any unduly aggressive provision of export credits.

61. However, the crucial factor determining whether programme countries can finance their development programmes while keeping debt sustainable will be the availability of adequate highly concessional ODA grants and loans, which can prevent more expensive external or domestic debt. This is especially true for low-income or vulnerable countries whose foreign exchange earnings or budget revenues are modest and volatile. Owing to the current absence of sufficient concessional funding for development programmes from the Development Assistance Committee, developing countries are increasingly resorting to loans from other sources.

There is no current agreement on what constitutes concessional lending.

62. Given the importance of this issue, it is surprising that there is no current agreement on what constitutes concessional lending (that is, ODA), with the Development Assistance Committee and the IMF using entirely different standards.[9] With non-concessional market borrowing meeting the Development Assistance Committee standard at current interest rates in most convertible currencies, the standard no longer provides an adequate guarantee of concessionality.

6. Transparent pursuit of results across multiple sectors

63. As regards transparency, citizens and parliaments of programme countries are increasingly demanding solid information about development cooperation at the national level, which constitutes a critical prerequisite for improving national accountability and promoting democratic ownership. Yet there are wide variations in the amount of information that is made publicly available about projected aid commitments and disbursements, policy and procedural conditions linked to aid, as well as key documents on aid policies and negotiations. In this regard, mutual accountability mechanisms in programme countries vary dramatically in the degree to which they include parliaments and civil society in such discussions.

Cross-cutting development issues are not sufficiently reflected in the current aid effectiveness framework.

64. In addition, there is a concern that the current aid effectiveness framework is not sufficiently responsive to development issues that cut across multiple sectors, notably human rights, gender and the environment. The Paris Declaration calls for harmonized environmental assessments and for harmonization efforts on other cross-cutting issues. While some stakeholders argue that this falls short of a strong statement of resolve and that increasing budget support may marginalize these

[9] The Development Assistance Committee uses a 25 per cent grant element calculated with a 10 per cent discount rate. IMF employs a 35 per cent grant element calculated using the much lower cost of capital in the currency of the loan.

issues and vulnerable groups, others suggest that development strategies resulting in strong monitorable commitments on these issues are the best way to proceed.

65. Finally, it is not clear that the Paris agenda will successfully go beyond procedural changes, which are the focus of most of its indicators, in order to ensure that development cooperation achieves sustainable development results. Already, the present report has highlighted that the degree to which programme and donor countries are not mainstreaming the global development goals as results or allocating aid to maximize their achievement and that some donors insist, via conditionality, on their own priority results. Addressing these issues will be crucial if the aid effectiveness agenda is to receive support at the political level and from civil society in the North and South.

Only by focusing on sustainable development results will the aid effectiveness agenda receive broader support.

D. Building capacity for aid coordination and management

66. The aid coordination and management capacities of programme countries have improved some in recent years, but most still face major gaps. A detailed assessment of the aid management cycle, including strategy and coordination functions, indicates that capacity levels in low-income countries are closely linked to recent capacity-building and development efforts by the international community.[10]

1. Analytical, policy and strategy capacities

67. Analytical, policy and strategy capacities have been least supported. Only around 12 developing countries have a clear aid management policy, and even those countries have achieved surprisingly little change in donor behaviour. This is partly because their policies are mostly limited to criteria of the Paris Declaration, rather than targeted at general barriers to effectiveness such as conditionality, unpredictability and inflexibility. The policies also do not include annual targets for individual donors and are not systematically followed up through monitoring or by negotiating changes in donor behaviour.

Aid management policies have little impact on donor behaviour.

68. Only three countries have designed aid strategies to implement their policy by negotiating with individual donors. These strategies include analysis of how to diversify or rationalize donor interventions and forecast the impact of greater aid effectiveness resulting from the strategies on reducing long-term aid dependence and increasing development results.

69. A key reason for country inability to design policies and strategies is limited capacity for aid analysis. Analysis of macroeconomic absorption and impact remains dominated by IMF. Virtually no country conducts a regular analysis of the micro-absorption aid cycle and disbursement blockages. Around 30 countries now conduct regular analysis of the degree of donor alignment with national policies and

[10] The assessment is based on the Heavily Indebted Poor Countries Debt Initiative capacity-building programme, which involves 36 low-income countries.

procedures, but the ability to plan aid scenarios through long-term forecasts and simulations of the impact of differing degrees of effectiveness is limited.

70. The capacity to evaluate results remains limited in many countries, in particular outside finance and planning ministries, since most evaluation processes use multiple donor frameworks rather than local programme country systems. Many countries are accelerating efforts to create national monitoring frameworks into which evaluations by donors can fit.

2. Coordination and operational capacities

71. Aid coordination used to be synonymous with donor-led coordination focused on harmonizing donor policies and procedures, discussing the policies or investment programmes of programme countries and providing financing pledges to support them. Coordination is now increasingly led by programme countries, focused on aligning donor policies and procedures with national priorities and providing resources to produce the results targeted in national development strategies.

Aid coordination is increasingly led by programme countries, yet negotiation capacities remain limited.

72. In this regard, the capacity to negotiate the alignment of development cooperation is underdeveloped. Countries currently lack the information and skills that would enable them to negotiate alignment for every programme and project based on knowledge of global best practices by donors.

73. Major efforts are being made to improve public financial management (including budgeting, accounting and auditing) and procurement, although these remain dominated by donor perceptions of best practice, with little cooperative diagnosis being carried out by programme countries and low involvement of civil society. Due to insufficient efforts to accelerate disbursements and to ensure that programme country and donor procedures facilitate matters in this regard, programme countries continue to suffer persistent large disbursement shortfalls. Efforts are also being made to enhance recording and monitoring systems.

3. Broadening capacity-building

74. Another vital issue is where capacity is being built. Almost all support has focused on ministries of finance, planning and development, with insufficient support to sector ministries, parliamentary committees, decentralized entities (e.g. states, municipalities), independent audit agencies and civil society organizations, which therefore tend to assess aid effectiveness and development strategies based largely on issues other than effectiveness or results.

Capacity-building tends to focus on the central government.

75. As part of improving aid quality, building the capacity of legislative and other oversight bodies is central to achieving results through passing laws regulating aid management functions; approving national aid policies; overseeing (together with audit offices) the quantity and quality of aid and its results; and transmitting to the executive the opinions of civil society groups and constituents on aid effectiveness and results. Similarly, civil society organizations play a key role in supporting the

beneficiaries of aid in assessing its effectiveness and results and assisting them in advocating improvements in national aid policies and effectiveness frameworks.

E. Mainstreaming global goals into development strategies and aid policies

76. The internationally agreed development goals,[11] including the Millennium Development Goals, have played an important role in mobilizing the commitment of the international community to address global development challenges. A key objective of the Development Cooperation Forum is to promote the attainment of the internationally agreed development goals through more coherent and focused development cooperation. An important indicator of this is how well these goals are mainstreamed into development strategies, aid policies and relevant performance review and evaluation mechanisms.

77. The preparatory process for the Development Cooperation Forum has shown that many of the Millennium Development Goals, and especially the wider internationally agreed development goals, are incidental and not central to poverty reduction strategies and aid policies. Some of the internationally agreed development goals are not even on the policy agenda, while rhetorical commitment to others is not being translated into action. This is largely because no quantitative targets have been set or they are considered additional to the Millennium Development Goals (around which most international attention has been focused).

Many development goals are incidental to strategies and policies.

78. The process also indicated that programme country strategies are often strongly influenced by the expectations of the main donors. Through sharing of such experiences the Development Cooperation Forum could help define policy autonomy for developing countries. Many developing countries have argued that discussions in a multilateral framework would enable a more realistic assessment of the real issues rather than more asymmetric relations in the donor-recipient discussions at the national level.

1. Local strategies and the global development agenda

79. Twenty-two "second generation" poverty reduction strategy papers focus almost entirely on the Millennium Development Goals rather than the broader internationally agreed development goals, while the "first generation" papers focused even more narrowly, largely on health and education. Among the Millennium Development Goals, basic education, health, water and sanitation, as well as reducing income poverty and improving governance, are the top priorities, with costed action plans.

Poverty reduction strategy papers fail to focus on the broader development goals ...

80. Other goals receive much less attention. Environmental sustainability, employment, gender equality and women's empowerment and broader governance

[11] See E/2005/56.

(democracy and popular participation) commitments are frequently mentioned in poverty reduction strategy papers, but are rarely costed; goals relating to hunger and social inclusion/integration are often not mentioned and virtually never costed; and goals relating to human rights (including violence against women and decent work), science and technology, sustainable energy, forest protection and biodiversity and international partnerships for the achievement of Millennium Development Goal 8 are barely mentioned.

81. Policies often only tackle a part of the problem and are therefore less likely to bring about achievement of the Millennium Development Goals. Most costed actions on income poverty relate to promoting economic growth, with relatively few strategies stressing pro-poor growth or support for vulnerable or marginalized groups, and only two second-generation poverty reduction strategy papers setting explicit objectives to reduce inequality. Most costed governance actions relate to public financial management and procurement, decentralization, rule of law (especially for private property) and anti-corruption programmes. Agricultural policies, which are of particular relevance in the current international debate about food prices, usually aim to enhance sectoral growth and exports without explicitly targeting food production or food security for the poor. Moreover, where employment strategies exist, they generally focus on increasing employment, ignoring explicit consideration of decent work and the labour market as the key means to ensure that growth promotes higher income for the poor.

2. Donor policies and the global development agenda

82. A review of the aid policies of 22 donors suggests that their policies almost always cite the Millennium Development Goals (rather than the internationally agreed development goals) as the basis for planning. Among these, the top priorities are education and health goals, especially child health. Reducing income poverty is also important for all donors as are, increasingly, gender equality, environmental protection, peace and security and governance. On the other hand, donors give much less priority to internationally agreed development goals on employment, hunger, social protection and integration and science and technology.

Donor policies also fail to focus on the internationally agreed development goals.

83. Furthermore, fundamental differences among donors about how some goals should be achieved remain. Some rely on the promotion of economic growth to reduce income poverty and others focus on whether such growth is pro-poor. In the area of gender equality, some limit themselves to education, while others focus more on maternal mortality, reproductive health and human rights. On the environment, some donors are mainly interested in forest conservation and biodiversity, while others stress climate change. On the subject of governance, Development Assistance Committee donors generally agree on the importance of public financial management and anti-corruption, although some stress private sector promotion and others the enhanced representation of the poor and civil society in relevant structures and processes. Some have a very strong focus on human rights and cultural diversity, while others largely ignore these issues.

Donors differ on how development goals should be achieved.

84. Poverty reduction strategy papers and aid policies are seldom situated in the international context. The strategy papers and national Millennium Development Goal reports rarely assess the impact of aid, debt relief, trade, investment, technology policies or other systemic economic governance issues on national development prospects. The majority of donors' aid policy statements do not link aid effectiveness to progress on the broader issues of trade, debt, investment and technology transfer, and virtually none explicitly sets bilateral goals for attaining Millennium Development Goal 8, or publishes a report on progress.[12] Nevertheless, there is growing recognition in the international community that policy coherence across sectors is critical if development cooperation is to support national development successfully.

3. Planning and performance assessment

85. Overall, almost all donors and programme countries use the Millennium Development Goals (and sometimes the internationally agreed development goals) as a normative framework to set broad objectives. The Millennium Development Goals are also used by many developing countries as a planning framework to guide resource allocation and programming priorities, while adapting them to national circumstances. Large amounts of aid are not, however, targeted to attain the Goals, and country-level flows are not growing as promised, partly due to unjustified doubts about the capacity of developing countries to absorb aid at the macroeconomic or microeconomic levels. As a result, developing countries often develop costed action plans only for high priority areas, which are the focus of donor funding, thereby reducing the scope of development plans and the size of budgets, thus undermining the achievement of the Goals. Furthermore, the use of the Goals as an evaluative framework is poor among both groups, leaving large amounts of aid not systematically evaluated on this basis of its impact on their achievement.

86. High-profile instruments used for performance assessment of developing countries focus primarily on the quality of processes, institutions and policies rather than the achievement of concrete outcomes such as the internationally agreed development goals. Most official assessments of first generation poverty reduction strategy papers rarely discussed whether the Millennium Development Goals, let alone the internationally agreed development goals, were included, costed and linked to medium-term expenditure frameworks or annual budgets or why the strategy papers failed to target the full attainment of the latter. Assessments of the second generation papers face similar issues, with the mainstreaming of global development goals still not a key criterion for evaluating the papers.

Performance assessments focus primarily on processes, institutions and policies.

87. In the context of the Paris Declaration, development strategies are assessed in terms of whether they are operational and are implemented in accordance with "managing for development results", which has an important impact on the degree

[12] Some of the Nordic Plus donors (Denmark, Finland, Ireland, the Netherlands, Norway, Sweden and the United Kingdom) are exceptions.

to which Development Assistance Committee donors are required to align their cooperation with the strategies. The assessment contains references to most of the internationally agreed development goals as part of various sectoral strategies and overall goals, but the indicators analyse mostly the quality of the process through which strategies are developed, monitored and evaluated.

F. South-South and triangular development cooperation

88. South-South and triangular cooperation is of growing importance in international development cooperation. Analytical work conducted for the Development Cooperation Forum has focused on the scale, scope and quality of South-South and triangular development cooperation, especially the views of 32 programme countries on its contribution to development. This analysis, with support from Governments of the South, has contributed to more comprehensive and reliable information and data on South-South development cooperation.[13]

1. Scale and scope of South-South development cooperation

89. The findings of the survey suggest that South-South development cooperation accounted for roughly $12.6 billion in 2006. This form of cooperation has grown significantly in recent years due to rapid economic development in a number of developing countries, which has increased availability of funds and helped Governments to play a more active role in development cooperation. Of the total figure, around 20 per cent is provided through multilateral organizations.

South-South development cooperation accounted for roughly $12.6 billion in 2006 ...

90. In terms of its scope and quality, development support for South-South cooperation is currently playing a key role in the international aid architecture, exhibiting considerable strengths as well as some weaknesses. Such support, it should be noted, it is highly complementary to aid from Development Assistance Committee donors and multilateral institutions.

91. Most (around 90 per cent) of South-South development cooperation comes in the form of project finance and technical assistance, with only around 10 per cent in balance of payments or budget support. Some contributors are planning to move to more programme-based approaches in future.

... and it comes mostly in the form of project aid and technical assistance.

92. Many contributors to South-South cooperation have programmes that are co-financed by triangular cooperation, whereby Development Assistance Committee donors finance projects executed by institutions of the South. The focus of triangular development cooperation is primarily technical cooperation, because

[13] In order to distinguish it from other South-South flows, which are also growing rapidly, development cooperation discussed in the present report covers only flows which match the definition of ODA, used by the Organization for Economic Cooperation and Development Development Assistance Committee.

contributors are seen as having expertise relevant to meeting developing country needs. However, lack of information makes it difficult to quantify amounts or to conduct detailed analysis of the scope, quality or impact of triangular development cooperation.

93. Contributors to South-South development cooperation allocate most assistance to countries with which they have close political, trade and investment ties. This includes a strong concentration in nearby regions, reflecting cultural and language links, better understanding of needs, trade and investment opportunities and lower administrative costs. The concentration also allows Southern contributors to focus strongly on regional projects, which are a priority of many programme countries.

2. Salient features of South-South development cooperation

94. Around two thirds of Southern assistance is estimated to be provided as loans with approximately one third as grants. However, for most low-income countries, these loans carry little risk of making debt unsustainable, because they are concessional, in line with programme country policies.

Concessional lending for South-South development cooperation carries less risk of making debt unsustainable.

95. Programme countries see South-South cooperation as aligned with their priorities in a relatively balanced way, providing considerable funding for infrastructure (for example energy, telecommunications and roads) and productive sectors, as well as social sectors. Some contributors pass almost all aid through the budget of the programme country, while others channel virtually all aid extrabudgetarily.

96. Contributors to South-South cooperation are also seen as being responsive to changing priorities in programme countries and to natural disasters, even though they do not have formal contingency allowances or facilities specifically designed to combat exogenous shocks.

97. South-South development cooperation is seen as relatively predictable because around three quarters of it is disbursed within the scheduled financial year, a process which facilitates fiscal planning. Many projects are also executed more rapidly than non-South projects, accelerating their contribution to development, although some contributors have been less predictable than others and some projects have run into execution delays.

South-South development cooperation balances flexibility and predictability.

98. One reason for its predictability is that policy conditionalities are largely absent from South-South cooperation, making it more attractive to programme countries than aid which is tied to policy changes. A second reason for predictability is that it is relatively unencumbered by procedural and administrative delays. This is because most contributors to South-South cooperation activities use their own, relatively uncomplicated, financial management and procurement procedures and a few use national financial management procedures.

Policy conditionality is largely absent.

99. South-South development cooperation is mostly tied to procurement of the contributing country's goods and services, especially for technical cooperation and emergency aid, which does not necessarily mean it is high cost or poor standard, because goods from the South are often of good value and cost-effective. Some contributors, in particular Arab contributors, give preference to bidders from programme countries.

3. Coordination and interaction at the country level

100. South-South development cooperation is subject to relatively little evaluation beyond scrutiny of the timeliness and completion of projects. This reduces missions and studies, lowering the transaction costs of the Governments of programme countries, yet it also means that there will be a reduced longer-term perspective on the sustainability or wider development impact of the project. This cooperation is also subject to much less evaluation with respect to environmental and social impact, particularly in the case of infrastructure projects.

101. Most contributors to South-South development cooperation do not participate in formal harmonization initiatives with other donors, except through some regional and country-led forums. An interesting exception is the high degree of procedural harmonization among Arab contributors through the Arab Coordination Group, whose members usually co-finance projects.

102. Because of their rejection of policy conditionality, contributors to South-South cooperation have not been deeply involved in policy dialogue with programme country Governments at the national level, although they are participating more regularly in recipient country-led donor coordination meetings (consultative groups, round tables, etc.), especially on infrastructure issues.

Contributors to South-South cooperation are little involved in formal harmonization initiatives and policy dialogue at the national level.

103. While approximately two thirds of contributors to South-South cooperation have signed the Paris Declaration, they have not been at the forefront of international initiatives on strengthening aid effectiveness, and, in spite of OECD efforts at liaison, many remain wary of a forum dominated by donors, where the particular characteristics of South-South cooperation are not taken into account.

IV. Policy messages and recommendations

104. The following policy messages and recommendations to enhance the coherence and effectiveness of international development cooperation for the realization of the internationally agreed development goals, including the Millennium Development Goals are submitted to the Development Cooperation Forum for its consideration.

Policy coherence for enhanced impact of development cooperation

105. The impact of development cooperation would be greatly enhanced through mutually supportive policies on trade, debt, investment, technology, climate change,

food security and systemic issues. Towards that end, the international community needs:

(a) Progress on the Doha Development Round, broadened debt relief, measures to ensure that gains from trade and investment are pro-poor, accelerated technology transfer, mitigating and adapting to climate change, global policy on food security and deepened reforms in international organizations;

(b) Donors to produce annual reports on progress on Millennium Development Goal 8, outlining how national policies across different sectors contribute to coherent global development;

(c) Programme countries to include in national reports on the Millennium Development Goals analysis of how international policies are impacting development prospects.

Credible targets and actual disbursements for scaled up aid

106. If current trends continue, donors will fall considerably short of their aid commitments. For effective scaling up of aid, the international community needs:

(a) All developed countries that have not done so to make concrete efforts towards the target of 0.7 per cent of GNI as ODA to developing countries with 0.15 to 0.20 per cent to least developed countries;

(b) All development cooperation contributors to plan ahead by introducing targets for annual increases for a maximum number of years;

(c) Country-by-country analysis of past disbursement shortfalls in order to provide a better understanding of bottlenecks to the scaling up of aid and enhanced monitoring of barriers to effective disbursement, with the aim of planning commitments and disbursements more flexibly;

(d) Analysis of successful country experiences in scaling up aid with a view to facilitating replication.

A balanced approach to aid allocation

107. In order to maximize the contribution of development cooperation to the internationally agreed development goals by improving aid allocation, the international community needs:

(a) Donors to set concrete targets and plan forward for annual increases in aid, especially to the poorest countries;

(b) Donors to move towards a more balanced approach to aid allocation across programme countries, based on multidimensional poverty indicators, equitable distribution of development aid, structural vulnerability to exogenous shocks and progress towards the internationally agreed development goals, including transparent targets and public allocation models;

(c) Donors to assess the impact of aid allocation policies on reducing access of individual countries to high-quality aid before cutting back on priority partners, and to put programme countries in charge of leading donor "division of labour" exercises at the national level;

(d) Major increases in aid to support agriculture (especially food production and security), infrastructure and trade;

(e) Donors and programme countries to intensify collaboration to scale up programme aid and reduce the number of projects and the volume of technical assistance;

(f) A global aid effectiveness framework to set explicit targets for aid allocation based largely on need and progress towards the internationally agreed development goals.

Towards a strengthened framework for aid effectiveness

108. With the view of strengthening progress in improving aid quality and effectiveness in the period 2008-2010, the international community needs to:

(a) Strengthen the Paris Declaration targets for aid effectiveness by:

(i) Setting targets for untying aid, such as 100 per cent of aid to low-income countries, including food aid and technical assistance, and full reporting by Development Assistance Committee donors;

(ii) Supporting programme country evaluation and analysis mechanisms, ensuring that decentralized agencies, parliaments and civil society evaluate results, investing more in South-South exchanges on how to achieve results and widening assessment of progress in "managing for development results" to cover these broader aspects;

(iii) Accelerating efforts to promote mutual accountability processes at the country level by more clearly defining good practice standards and reinforcing country capacity and leadership;

(b) Incorporate clear practical steps into the framework for aid quality, including by:

(i) Providing additional assistance solely through concessional financial flows for countries, including least developed countries at high risk of incurring unsustainable debt levels, and developing a uniform agreed definition of concessionality;

(ii) Defining clear indicators on multi-year predictability, including commitments and projections of disbursements for at least three years, payments early in the programme country's financial year and measures to enhance "in-year" predictability and to reduce conditionality and procedural barriers to such disbursement;

(iii) Improving international mechanisms for combating exogenous shocks, using larger flexible contingency allowances to respond to changing needs, and increasing support either for ex-ante measures to protect against shocks or for reserve and contingency funds in programme country budgets;

(iv) Setting clear targets for streamlining policy conditionality by focusing on critical development outcomes, basic international norms and standards and fiduciary concerns, as well as ensuring greater flexibility in implementation to avoid stop-and-go aid flows;

(v) Curbing procedural conditions that cause disbursement delays, including financial, institutional and analytical preconditions, and limiting the use of incentives that distort programme country priorities;

(vi) Making all development cooperation agreements, policies and guidelines publicly available in order to facilitate scrutiny by parliamentarians and civil society;

(vii) Ensuring the inclusion of cross-cutting issues in programme country strategies with goals and action plans, that donors fund them fully and that the results are monitored and evaluated.

Country capacity for aid coordination and management

109. With the view of strengthening programme country leadership of aid coordination and management, the international community needs:

(a) Programme countries to develop aid policies with annual targets for alignment by individual donors, improve aid management systems and implement policies by negotiation with donors;

(b) Donors to scale up support to reinforce country capacity in aid analysis, policy, strategy, negotiation and the evaluation of results;

(c) Capacity-building support to be extended beyond core ministries to other central and decentralized government agencies, parliaments and independent audit bodies and civil society organizations;

(d) Enhanced provision at the global level of information on donor practices, policies and procedures so as to empower programme countries to design strategies and negotiate alignment;

(e) Joint diagnosis of the quality of country development strategies and systems for public financial management, procurement and managing for development results in order to enhance ownership of policy changes.

Alignment of development cooperation with global development goals

110. To enhance alignment of development cooperation with the internationally agreed development goals, including the Millennium Development Goals, the international community needs:

(a) Greater focus on mainstreaming, under national leadership, the broader internationally agreed development goals, as well as the Millennium Development Goals, into poverty reduction strategy papers and aid policies, in particular those relating to employment, hunger, social inclusion, human rights, science and technology, sustainable energy, forest protection and biodiversity. In some cases this will require better definition of the internationally agreed development goals and the measures needed to achieve them;

(b) Programme countries to consider preparing costed action plans for wider range of global development goals in order to facilitate action on barriers to progress as well as aid commitments to match them;

(c) Poverty reduction strategy papers and aid policies to match the scope and ambition of the Millennium Development Goals, while encouraging adaptation to individual country priorities;

(d) Development Assistance Committee donors to use the internationally agreed development goals more systematically as a results-oriented planning framework; and programme countries and donors to evaluate more systematically the impact of aid on the achievement of the Millennium Development Goals;

(e) International tools and processes for assessing the effectiveness of national development strategies to focus more closely on planning and results;

(f) The United Nations to periodically assess whether development strategies and aid policies are mainstreaming concrete actions into the design and implementation of policies to achieve the internationally agreed development goals.

Development cooperation architecture

111. To reflect and build on the diversity of the international aid architecture, the international community needs to:

(a) Pursue an internationally agreed definition of what constitutes aid, including the concessionality of financing;

(b) Assess on a regular basis the scale of "multi-bilateral" aid, its underlying causes and whether it is as successful as core multilateral aid in achieving the intended development results;

(c) Conduct periodic analysis of emergency aid and aid provided through civil society organizations in the North and the South;

(d) Assess trends in the scale, scope and quality of different forms of development cooperation, fully recognizing the uniqueness of different actors. Concerning South-South and triangular development cooperation in particular, further analysis could:

(i) Include all significant South-South bilateral and multilateral contributors;

(ii) Assess good practices in areas such as technical and regional cooperation, infrastructure as well as institutional and legal arrangements for managing effective development cooperation programmes;

(e) Encourage contributors to South-South development cooperation to provide more comprehensive data on a voluntary basis. This may include technical support to Governments of the South and enhanced coordination among the agencies concerned in order to bring about an agreement on definitions and on the compilation and processing of information;

(f) Study lessons from successful scaling-up experiences by different actors with the aim of arriving at more widely agreed common practices and standards in order to help programme countries to make the best use of available assistance, including by providing contributors to South-South development cooperation with greater voice in the international debate;

(g) Generate more reliable data on triangular cooperation. Development Assistance Committee donors could report on the percentage of aid contracts executed by institutions outside the Development Assistance Committee and

institutions of the South on the scale of Development Assistance Committee or multilateral organization co-financing of their activities.

Future role of the Development Cooperation Forum

112. The Development Cooperation Forum can make an important contribution to enhanced coherence and effectiveness of development cooperation by:

(a) Providing independent analysis and an opportunity for the exchange of experiences by focusing, inter alia, on:

(i) The gaps and obstacles for national development strategies, aid policies and allocation practices in order to successfully contribute to achieving sustainable development results;

(ii) The scale, scope and effectiveness of assistance provided by non-Development Assistance Committee sources, including through South-South and triangular development cooperation;

(iii) Progress in strengthening aid quality and effectiveness as well as mutual accountability at the global and country level;

(iv) Lessons learned from managing and coordinating newer aid modalities, including countries that have significant experience with direct budget support;

(b) Providing independent analysis on the implications of emerging issues such as policy coherence, climate change and food security on development cooperation;

(c) Strengthening the voice of programme countries, non-Development Assistance Committee development cooperation contributors and other stakeholders, such as parliamentarians and civil society organizations, by supporting inclusive global dialogue on key development cooperation issues;

(d) Focusing its meeting in 2010 on playing an instrumental role in developing a more inclusive framework for guiding effective development cooperation, taking into consideration the concerns of stakeholders.

E/2008/70

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United Nations E/2008/70

Economic and Social Council

Distr.: General
29 May 2008

Original: English

Substantive session of 2008
30 June-25 July 2008
Item 2 (c) of the provisional agenda*
High-level segment: annual ministerial review

Letter dated 23 May 2008 from the Chargé d'affaires a.i. of the Permanent Mission of Luxembourg to the United Nations addressed to the President of the Economic and Social Council

I have the honour to transmit herewith the national report of Luxembourg for the 2008 annual ministerial review, to be held during the high-level segment of the 2008 substantive session of the Economic and Social Council (see annex).

I would be grateful if you would circulate the present letter and its annex as a document of the Economic and Social Council, under agenda item 2 (c) of the provisional agenda.

(*Signed*) Jean **Olinger**
Chargé d'affaires a.i.

* E/2008/100.

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Annex to the letter dated 23 May 2008 from the Chargé d'affaires a.i. of the Permanent Mission of Luxembourg to the United Nations addressed to the President of the Economic and Social Council

[Original: French]

National report of Luxembourg
Implementing the internationally agreed goals and commitments in regard to sustainable development

May 2008

Summary

Part A of the report describes the implementation of Luxembourg's development cooperation policy.

Luxembourg's development cooperation policy has evolved considerably over the past 15 years. Thanks to the efforts of successive governments, Luxembourg's official development assistance (ODA) reached the threshold of 0.7 per cent of gross domestic product (GDP) in 2000, compared with only 0.33 per cent in 1995. Its ODA reached 0.92 per cent of GDP in 2007 and the Government aims to reach 1 per cent in the coming years. Luxembourg's assistance is allocated solely in grant form and is entirely untied.

Luxembourg attaches great importance not only to the quantity but also to the quality of its assistance. As a result, although the volume of its ODA has increased significantly in recent years, its cooperation programme has maintained a policy of geographical concentration, focusing its assistance on 10 partner countries: Cape Verde, Senegal, Mali, Burkina Faso, Niger and Namibia in Africa, Viet Nam and Laos in Asia and El Salvador and Nicaragua in Latin America. At the same time, a policy of sectoral concentration is being pursued, under which priority is given to interventions in the areas of infrastructure and social services, especially education, health, water and sanitation.

The policies of geographical and sectoral concentration apply equally to bilateral projects and programmes and those implemented with multilateral partners, foremost among which are the funds and programmes of the United Nations system. Systematic efforts are made to ensure synergies between bilateral assistance (accounting for 70 per cent of Luxembourg's ODA) and multilateral assistance (30 per cent of ODA), especially in Luxembourg's 10 partner countries.

In the context of the implementation of the Paris Declaration on Aid Effectiveness, adopted in March 2005, Luxembourg's cooperation programme has endorsed the principles of country ownership, alignment and harmonization, in particular. Progress in this area is being assisted by the process of moving closer to the field. In recent years, Luxembourg has set up regional cooperation bureaux enabling it to be more in tune with its partner countries and thus assist them more effectively.

Part B of the report deals with Luxembourg's implementation of the internationally agreed goals and commitments in regard to sustainable development.

At the 2000 Millennium Summit, the international community adopted the Millennium Declaration and the Millennium Development Goals (MDGs) which are its practical expression. The MDGs provide a road map for reducing poverty by 2015 and Luxembourg subscribes fully to them as part of its commitment to development cooperation. The MDGs are thus central to Luxembourg's development cooperation priorities as articulated in part A of the report.

All Luxembourg's cooperation activities are conceived from the standpoint of sustainable development, as defined in the Brundtland Report, in that they contribute to "development that meets the needs of the present without compromising the ability of future generations to meet their own needs". Since the 2008 ministerial review is focusing on MDG 7, aimed at ensuring environmental sustainability, the report describes how that goal is being taken into account in the implementation of Luxembourg's development cooperation policy. Part B of the report starts with a description of the practical implementation of MDG 7, taking two examples: natural resources management, one of the two sectors of concentration of the indicative cooperation programme between Luxembourg and Burkina Faso for 2008 to 2012, and Luxembourg cooperation interventions in the water and sanitation sector in several partner countries.

The report then goes on to describe the instruments put in place to ensure that sustainable development principles are integrated in Luxembourg public policy.

Lastly, the report concludes with a description of two new challenges facing sustainable development: climate change and food security. For some years now, Luxembourg's cooperation programme has been supporting developing countries' efforts to adapt to climate change. A decision has been taken to step up these efforts in the coming years, as reflected in the policy statement on cooperation and humanitarian action made to the Luxembourg Parliament on 23 April 2008 by Jean-Louis Schiltz, Minister for Cooperation and Humanitarian Action. To help ensure food security in developing countries in the face of the current worldwide surge in food prices, Luxembourg has put in place a range of short-term measures. In the medium and long term, its cooperation programme will remain actively involved in integrated rural development alongside its partner countries.

Part A

Implementation of Luxembourg's development cooperation policy

1. Historical background

The essential motivation of the action taken by successive Luxembourg governments in the areas of development cooperation and humanitarian action is to show solidarity with the world's poorest people. As early as 1974, pursuant to the commitment made by the industrialized countries in 1970 at the General Assembly of the United Nations to devote at least 0.7 per cent of their gross national product (GNP) to official development assistance over the next 10 years, the Government of Luxembourg emphasized the crucial importance of human solidarity and pledged to provide increased and better structured assistance.

The sentiment underlying Luxembourg's development cooperation has changed very little over the past 30 years, although the range of instruments and partners through which this cooperation is conceived and implemented has broadened considerably.

The firm commitment made at the 1992 Earth Summit in Rio de Janeiro to increase Luxembourg's official development assistance to 0.7 per cent of GDP by 2000 gave unprecedented impetus to a policy that, since then, has gained steadily in resources, expertise and maturity.

The 6 January 1996 Development Cooperation Act provided the necessary legal and statutory framework. Its establishment of a Development Cooperation Fund, financed from the State budget but freed from the constraints of the principle of annual budgeting, put in place a modern management tool that was adapted to Luxembourg's development cooperation and equipped it to act in the new international context that would begin to take shape in 2000.

Luxembourg's cooperation programme took part in a peer review of the Development Assistance Committee of the Organization for Economic Cooperation and Development (OECD) in 2003 and again in 2007-2008. The main changes that occurred in the intervening period were the result of European and international developments with regard to the quality and volume of official development assistance and included the following:

- The volume of Luxembourg's ODA increased by 60 per cent (at current prices);
- The number of its partner countries remained stable;
- Some programmes entered a phase of consolidation/transition (Namibia, El Salvador, Viet Nam);
- The number of "project countries" was reduced (from 20 in 2003 to 12 at present);
- The network of cooperation bureaux was expanded (to 6);
- Multi-bilateral assistance was better taken into account in indicative cooperation programmes (ICPs) with partner countries;
- Relations with multilateral partners became more structured.

2. Luxembourg's development cooperation strategy

With the successive adoption of the Millennium Declaration and Millennium Development Goals in 2000, the Monterrey Consensus on Financing for Development in 2002 and the Paris Declaration and the final document of the United Nations Summit in 2005, the international community acquired an unprecedented, coherent arsenal of rules, commitments and instruments for combating poverty effectively.

Luxembourg, particularly during its Presidency of the Council of the European Union in the first half of 2005, contributed actively to shaping this new international frame of reference for development cooperation, both at the United Nations and in OECD (Paris Declaration on Aid Effectiveness), as well as within the European

Union (collective EU commitment to increase ODA to 0.56 per cent of GDP by 2010 and 0.7 per cent of GDP by 2015).

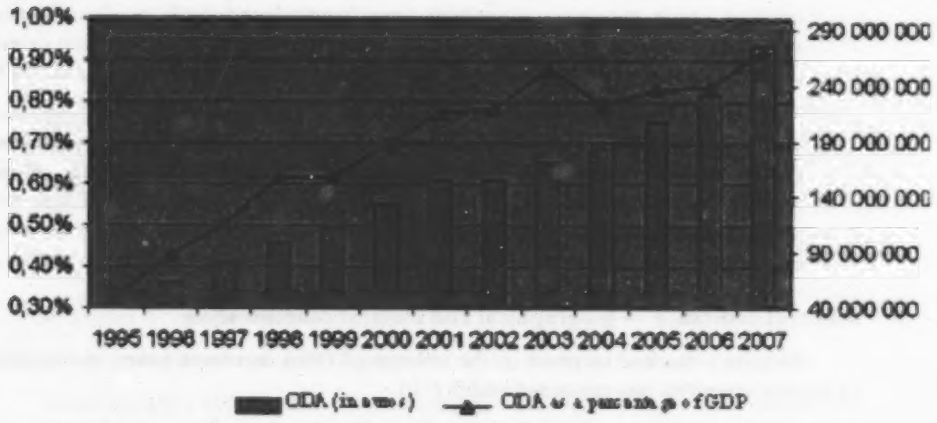
Luxembourg's development cooperation programme currently uses this frame of reference to firmly anchor its own strategic guidelines.

As regards the amount of assistance, the Government's 2004 programme reaffirmed its political will to remain at the forefront of international efforts: "*Luxembourg reached the goal of 0.7 per cent of GDP in 2000, thereby responding to the recommendations made in the framework of the United Nations. It will persevere in its efforts to reach the 1-per-cent threshold in the coming years.*"

In ODA terms, since 2000 Luxembourg has belonged to the group of industrialized countries that devote more than 0.7 per cent of their GDP to development cooperation. In 2007, its ODA totalled 275,140,000 euros, or 0.92 per cent of GDP according to current statistics.

In accordance with OECD criteria, 70 per cent of ODA is devoted to bilateral assistance and 30 per cent to multilateral assistance.

Evolution of Luxembourg's ODA from 1995 to 2007



As regards the quality of assistance, the Luxembourg cooperation programme's 2006 "Strategy and principles" document emphasizes that:

> "*Luxembourg's development cooperation programme is firmly committed to the goal of* ***poverty eradication****, particularly in the least developed countries. Its actions are conceived in* ***the spirit of sustainable development****, understood in its social, economic and environmental aspects and centred on men, women and children. These actions are central to the attainment — by 2015 — of the* ***Millennium Development Goals****. As a result, the main cooperation sectors are in the social sphere: health, education, including vocational training and apprenticeship, and integrated local development. Relevant initiatives in the area of microfinance are encouraged and supported, whether at the design stage or during implementation.*

From a geographical standpoint, in the interests of effectiveness and impact, Luxembourg's cooperation programme pursues a policy of targeted intervention in a limited number of ***selected partner countries****. Six of its 10 development partners, selected primarily on the basis of the composite human development index of the United Nations Development Programme (UNDP), are in Sub-Saharan Africa. Cooperation with these countries is characterized by a keen sense of partnership with national and local authorities.*

This ***spirit of partnership****, combined with a concern to ensure that recipients have ownership of programmes and projects, characterizes the implementation of multi-annual cooperation programmes or* ***indicative cooperation programmes (ICP)*** *(...)*

At the same time, Luxembourg's cooperation programme is actively involved in the discussion and definition of new ***harmonization and quality standards for international development assistance****. It has endorsed the conclusions of the Paris Declaration on Aid Effectiveness: ownership, harmonization, alignment, results and mutual accountability, adopted in March 2005.*

Luxembourg's official development assistance also includes a large ***humanitarian assistance*** *component, understood in the broader context of civilian crisis management, which may be deployed both in the event of natural disasters and in post-conflict situations, from the moment when armed violence ceases until development cooperation activities resume.*

Luxembourg's development cooperation and humanitarian assistance policy has been characterized for over 15 years by ***a sustained, progressive effort, in both qualitative and quantitative terms, for the benefit of the world's poorest people****. It is the expression of an affirmed and confirmed international solidarity and, as such, is an important vehicle for the external activities of the Government of the Grand Duchy of Luxembourg".*[1]

3. Bilateral assistance — geographical and sectoral concentration

Despite a marked increase in the volume of ODA in recent years, the number of partner countries has remained stable (10):

- In Africa (6): Cape Verde, Senegal, Mali, Burkina Faso, Niger and Namibia;
- In Asia (2): Viet Nam and Laos;
- In Latin America (2): El Salvador and Nicaragua.

It should be noted that the Occupied Palestinian Territories receive the same treatment as partner countries.

In keeping with the objective of development cooperation policy, which is to eradicate poverty, most bilateral assistance goes to the least developed countries. The UNDP Human Development Index serves as a benchmark for the selection of partner countries.

[1] "Luxembourg cooperation: strategy and principles", Department of Development Cooperation, 2006 (see http://www.mae.lu/cooperation).

This criterion applies not only to the choice of partner countries but also to the choice of areas of intervention within those countries. Luxembourg's cooperation programme concentrates its support on the neediest regions, identified in cooperation with the authorities and specified in indicative cooperation programmes.

Bilateral assistance to partner countries accounted for some 37 per cent of total ODA in 2007 and some 53 per cent of the bilateral envelope.

With regard to sectoral concentration, it should be noted that two thirds of Luxembourg's bilateral ODA is invested in infrastructure and social services, namely, education (15 per cent, especially secondary education and vocational training and apprenticeship), health (20 per cent, essentially basic health) and infrastructure and other social services (policy in the areas of population/health and fertility, water and sanitation and support for civil society).

A significant portion of bilateral cooperation is devoted to multisectoral programmes and projects in the context of integrated local development. Such programmes and projects may include agriculture, irrigation, health, education, civil society and microfinance components.

Moreover, emphasis is placed on the three crosscutting themes of environment, gender issues and good governance. Part B of this report will deal in greater detail with the issues of environment and climate change.

4. Multilateral assistance

In 2007, multilateral assistance accounted for 30 per cent of total ODA and was composed as follows:

- European Union: 28 per cent
- Funds and programmes of the United Nations system: 37 per cent
- World Bank group: 18 per cent
- Regional development banks: 9 per cent
- Other multilateral agencies: 8 per cent.

Luxembourg's cooperation programme provides support to several specialized agencies, funds and programmes of the United Nations system, with which framework cooperation agreements have been signed. This support takes the form either of voluntary contributions to budgets or thematic priorities or of contributions to national programmes or (multi-bi) projects in Luxembourg's partner countries.

Since the 2003 peer review of the OECD Development Assistance Committee and in the context of the implementation of the 2005 Paris Declaration on Aid Effectiveness, multilateral cooperation programming has evolved along the following lines:

Alignment with geographical priorities: since the introduction of second-generation indicative cooperation programmes (ICPs) in 2006, a 10- to 20-per-cent portion of the total ICP envelope has been reserved for projects or programmes implemented by multilateral agencies in the countries in question. The organizations chosen to implement this envelope are generally selected from among Luxembourg's preferred partner agencies, based on the degree of complementarity

between their programmes and projects and Luxembourg's bilateral cooperation interventions.

Alignment with sectoral priorities: the sectoral priorities established in ICPs are defined in conjunction with the authorities of partner countries. In the interests of coherence and concentration of efforts, multilateral programmes funded within the ICP framework now abide by these sectoral choices.[2]

Multi-year programming and predictability: since Luxembourg's cooperation programme is active in a limited number of sectors, it has long maintained close ties with a small number of multilateral organizations active in these sectors. In order to strengthen its links with these agencies and organizations, make its support more coherent and introduce multi-year — and hence predictable — planning of available financial resources, Luxembourg's cooperation programme signed framework agreements in 2004 with UNDP, the United Nations Population Fund (UNFPA) and the United Nations Children's Fund (UNICEF) and in 2006 with the World Health Organization (WHO). In 2007, in the light of the sectors identified with partner countries within the ICP framework, a decision was taken to expand this group of preferred multilateral partners to include the International Labour Office (ILO) and the United Nations Capital Development Fund (UNCDF). Framework agreements with these organizations are currently in preparation and provide, inter alia, for annual consultations during which progress reports on the period just completed are analysed and the programme of work and budgetary allocations for the coming period are discussed.

5. Implementation modalities

ODA comes entirely from State budget credits — either from specific, annualized budget lines or from the Development Cooperation Fund, which receives an annual allocation from the State budget but is not subject to the principle of annual budgeting with regard to commitments and disbursements. The Fund thus offers several advantages that directly benefit Luxembourg's cooperation partners (bilateral or multilateral):

- *Predictability and long-term action*: the development cooperation programme can plan over several years by establishing a total envelope (as in the case of ICPs with partner countries);
- *Speed and flexibility*: Development cooperation services can react quickly and flexibly in case of need, for instance, when the implementation of a project or programme is delayed or speeded up.

Luxembourg's ODA is allocated solely in grant form,

Luxembourg's approach, taken in agreement with its partners, is to establish in its second-generation ICP priority sectors and financial envelopes covering a five-year period. This approach ensures a high degree of predictability of financial flows in the medium term while permitting full alignment with national sectoral priorities and preserving the necessary flexibility throughout the duration of the ICP.

[2] In Mali, for instance, where basic health and gender issues have been identified as priority ICP sectors, WHO and UNFPA are among the preferred multilateral agencies with which cooperation is established.

In keeping with the spirit and the letter of the Paris Declaration on Aid Effectiveness, Luxembourg's cooperation programme takes the view that the appropriateness of opting for direct budgetary assistance must be weighed on a case-by-case basis, in the light of such criteria as transparency of management mechanisms and actual capacity in social sectors to absorb such assistance. Contributions to sectoral and/or regional funds in some partner countries are currently being considered in the context of the implementation of second-generation ICPs. Luxembourg's cooperation programme is also paying increased attention to capacity-building in governmental and administrative bodies.

Luxembourg's ODA is completely untied. From time to time, its cooperation programme responds to a specific request for emergency food aid from a partner country by making a contribution in kind.

6. Aid effectiveness

Ownership

All Luxembourg's partner countries have put in place national development and poverty reduction strategies, most often in the form of Poverty Reduction Strategy Papers (PSRP) prepared and updated at the instigation of the World Bank and the International Monetary Fund (IMF). Luxembourg's action in its partner countries is based around and supports the implementation of these strategies. Where such mechanisms exist, representatives of Luxembourg's cooperation programme participate in working and coordination groups between donors and national authorities.

With regard to ownership in general and aid effectiveness in particular, some partners are more advanced than others. Viet Nam is a case in point, having adopted a national version of the Paris Declaration — the Hanoi Core Statement.

Alignment

In the 2005 Paris Declaration on Aid Effectiveness, donors undertook to "use country systems and procedures to the maximum extent possible".

ICPs, drawn up jointly with national authorities, are integral to the implementation of national poverty reduction strategies. During the phase of identifying projects and programmes for inclusion in the ICP, national authorities and Luxembourg cooperation officials gauge their complementarity and added value in relation to this frame of reference.

For the partnership between Luxembourg's cooperation programme and its local partner, these strategies, including any that may exist at sectoral level, are the principal frame of reference with the Millennium Development Goals (MDGs).

Harmonization

In recent years, coordination among donors and between donors and national authorities has become a key factor for enhancing aid effectiveness. The importance of donor coordination, especially in the field, was decisive for convincing Luxembourg's cooperation programme to expand its network of regional bureaux and step up its field presence.

Luxembourg's cooperation programme currently has six regional bureaux: Praia (Cape Verde), Dakar (covering Senegal and Mali), Ouagadougou (covering Burkina Faso and Niger), Hanoi (covering Viet Nam and Laos), Managua (covering Nicaragua and El Salvador) and Pristina (Kosovo).

This strengthened field presence allows it to become more closely involved than previously in existing donor coordination mechanisms and to facilitate synergies by means of direct contacts.

For instance, in 2006 donors active in Cape Verde[3] designated Luxembourg's cooperation programme a lead donor in the education sector and, more specifically, for all aspects related to technical education and vocational training. As anticipated, coordination among donors and with the national authorities has intensified since then, inter alia through:

- Regular meetings of the donors represented in Cape Verde and briefings for missions by non-resident donors and agencies;
- Targeted contacts with Cape Verde's technical Ministries;
- Participation on behalf of donors in national and international conferences and seminars.

Following this initial positive experience, Luxembourg's cooperation programme is ready to play a similar role in other sectors or countries, if circumstances permit.

Luxembourg's cooperation programme also supports increased donor coordination and cooperation in the area of monitoring and evaluation. For instance, it co-financed and participated actively in the joint evaluation of the international community's humanitarian efforts in the context of the 2004 tsunami in the Indian Ocean, from which it concluded, inter alia, that it would have been difficult for individual donors to conduct an exercise of that magnitude on their own.

In 2007, Luxembourg participated in the joint evaluation of the Paris Declaration. A joint multisectoral evaluation in the Niger is in preparation with the European Commission, Belgium and France.

7. Cooperation with non-governmental organizations

The funding instruments put in place for cooperation with Luxembourg non-governmental development organizations take account of the latter's diversity in terms of size, own financial contributions and structures.

Thanks to co-financing, Luxembourg's cooperation programme can support individual projects by providing a financial contribution determined by their location. For a project in one of the 10 partner countries, the co-financing rate is 75 per cent, while in other countries the rate is 66 per cent. Most non-governmental organizations opt for this approach, which does not pose any particular strategic requirements.

Non-governmental organizations that have acquired a degree of expertise while maintaining an ongoing relationship with the Ministry of Foreign Affairs may opt for the framework agreement approach. A multi-year agreement establishes

[3] One of the eight pilot countries of the "One UN" reform effort.

cooperation between the Ministry and the non-governmental organization on the basis of a geographically and/or sectorally targeted intervention strategy, a programme of activities and a funding plan that are clearly defined. The Ministry's participation rate may be as much as 80 per cent of the total financial envelope for a period of between two and five years.

There are currently 84 non-governmental development organizations accredited by the Ministry of Foreign Affairs of the Grand Duchy of Luxembourg. This number reflects the interest in and commitment to development cooperation shown by Luxembourg public opinion. Most of these organizations have adopted a modus operandi of working closely with civil society structures in the developing countries in which they operate.

Non-governmental organizations are key actors in the efforts made in Luxembourg to educate and raise awareness about development.

In 2007, of the credits granted to non-governmental organization projects and programmes in developing countries, 72 per cent were allocated to 15 framework agreements and 28 per cent to co-financing. Also in 2007, total contributions to national non-governmental development organizations totalled 29.4 million euros, equivalent to around 13 per cent of ODA. Of this amount, 1.3 million euros were spent on raising public awareness in Luxembourg about development cooperation. The Government invested some 320,000 euros in its awareness-raising activities in 2007.

Part B

Implementing the internationally agreed goals and commitments in regard to sustainable development

1. Introduction

At the 2000 Millennium Summit, the international community adopted the Millennium Declaration and the Millennium Development Goals (MDGs) which are its practical expression. The MDGs provide a road map for reducing poverty by 2015 and Luxembourg naturally subscribes to them fully as part of its commitment to development. The MDGs are thus central to Luxembourg's development cooperation priorities as articulated in part A of the report.

All Luxembourg's cooperation activities are conceived from the standpoint of sustainable development, as defined in the Brundtland Report, in that they contribute to "development that meets the needs of the present without compromising the ability of future generations to meet their own needs".

This definition introduces three components — environmental, social and economic — that must interact in order to improve living conditions throughout the world, above all in the developing countries, while respecting the limits imposed by ecosystems' absorptive capacity. These three components are also at the heart of Luxembourg's development cooperation activities, as demonstrated in part A of this report.

While the 2007 progress report on the implementation of the MDGs was generally muted, the issue of environmental sustainability has grabbed headlines in

recent months, as the inevitability of climate change arouses global awareness of the environment's vulnerability and the need for action. Taking on board the concept of sustainable development should thus permit a model of economic and social development in developing countries that respects the environment. The imperatives of sustainable development must also be integrated in all developed countries' policies.

Since the 2008 ministerial review is focusing on MDG 7, this part of the report describes how that goal is being taken into account in the implementation of Luxembourg's development cooperation policy. Starting with a description of the practical implementation of MDG 7, aimed at ensuring environmental sustainability, it goes on to describe the integration of sustainable development principles in Luxembourg policy, then concludes with a description of the new challenges facing sustainable development that will need to be tackled.

2. Implementation of MDG 7 by Luxembourg's cooperation programme

(a) *Integration of the environmental dimension in Luxembourg's development cooperation policy: example of cooperation with Burkina Faso*

Pursuant to the 6 January 1996 Development Cooperation Act, article 4 of which provides for cooperation in regard to the environment in order to promote "the sustainable economic and social development of developing countries, particularly the most disadvantaged countries" (article 1 of the same Act), Luxembourg's cooperation programme takes environmental concerns into account across the whole range of programmes and projects that it implements.

Environmental subjects can thus be an element of the political dialogue conducted at ministerial level between Luxembourg and its partner countries, just as they form part of exchanges between Luxembourg's regional bureaux in partner countries and the administrations of those countries. Luxembourg's development cooperation executing agency, Lux-Development S.A., takes the environmental dimension into account in putting Luxembourg's development cooperation policy into practice and attaches binding environmental criteria to its specifications and tenders.

Realizing that environmental issues cannot be resolved at national level alone, Luxembourg has made multilateral actors, notably United Nations funds and programmes, its partners of choice for putting this cross-cutting priority into practice. One example of this is Luxembourg's constant and growing support in recent years for the Global Environment Facility managed by UNDP.

In addition to making MDG 7 a cross-cutting priority, Luxembourg can also undertake more targeted interventions. In the context of its general strategic guidelines and pursuant to the Paris Declaration on Aid Effectiveness and the European Union Code of Conduct on Complementarity and Division of Labour in Development Policy, Luxembourg's cooperation programme provides environmental assistance if this corresponds to the needs of the partner country, as expressed in its national development strategy, and if other donors are not already involved in this sector.

Burkina Faso is definitely the best example of this: under the ICP concluded for the years 2008 to 2012, Luxembourg's cooperation programme targets natural

resources management as one of the indicative cooperation programme's two sectors of concentration.

Such targeting is based on the recognition that there are many current constraints on the sustainable management of natural resources in Burkina Faso and that, despite the not inconsiderable results achieved on the ground, there are still shortcomings, notably as regards the medium- and long-term vision and the institutional, statutory and operational framework.

Confronting the challenges of sustainable development in Burkina Faso therefore involves the formulation of a coherent environmental policy based on: (i) a clear medium- and long-term vision of the occupancy and use of rural areas (agriculture, forestry, fauna, etc.); (ii) optimum, sustainable use of natural resources; (iii) participatory management; and (iv) land and food security.

Burkina Faso's Ministry of the Environment thus faces three major challenges in the coming years:

- Instituting sustainable systems for managing the environment and safeguarding biodiversity;
- Improving the living environment of urban and rural populations;
- Fulfilling and upholding international commitments and promoting sustainable development.

In addition to providing more specific assistance to a programme in support of participatory natural resources management in the Hauts Bassins region and the development and use of carrier species such as *Jatropha curcas* (which offers significant energy potential without threatening food security, being a plant that does not form part of the food cycle and that grows in arid zones), Luxembourg's cooperation programme provides support for the development and implementation of the national programme for sustainable forestry resources management.

The aims of the proposed support for the development and implementation of the national programme for sustainable forestry resources management are to:

- Encourage local populations and authorities to adopt sustainable forestry resources management;
- Promote sustainable and participatory forest management in the areas concerned;
- Develop income-generating activities and sustainable jobs with local populations;
- Help build the different actors' capacities for sustainable, decentralized forestry resources management;
- Help develop synergies among the different agencies involved in sustainable forestry resources management.

The programme will be implemented through the following four priority lines of action:

- Improving knowledge of national forestry resources;
- Building participants' capacities;

- Increasing and diversifying forestry production;
- Strengthening the legal and institutional framework for sustainable forestry resources management.

Combating poverty while protecting the environment in Burkina Faso

Mariame Drabo, 44, is married and has five children. Up until 2003, she cut wood illegally in the Dinderesso forest reserve. Her husband, being unemployed, was no longer able to meet the family's needs and the illegal resale of the cut wood was their only means of survival. Setting out very early in the morning, Mariame covered up to 40 kilometres a day with her bundle of wood on her head.

The Luxembourg cooperation programme's project for the participatory development of the Dinderesso and Kou forest reserves (PAFDK) was launched in 2002. As Mariame tells it:

> *"In May 2003, the project team surveyed all the women who had been cutting wood illegally. With the support of the project adviser, we organized into 12 associations with a total membership of 450 women. Each association had chosen to set up alternative income-generating activities.*
>
> *I now sell firewood legally in Bobo-Dioulasso. With the project's support, I was able to access microcredit to expand my business. I have also taken a lot of training courses: literacy training in the national language Dioula and training in the management of associations, the building of improved homes and the management of small business and agro-forestry. My women friends have taken other income-generation training courses, such as dyeing, weaving, sewing, soap and shea butter manufacturing, cashew nut processing, catering, etc.*
>
> *I have learnt to plant and maintain a tree and I am involved in the project's reforestation activities. We women used to cut wood illegally, but now we have regained our dignity and become fully-fledged project partners."*

The Yanta ("moving ahead") Union was set up in August 2006 as Luxembourg's cooperation partner for the new natural resources management project, 2006-2011. Mrs. Drabo was elected president of the Union, which brings together 30 women's associations with a total membership of over 2,000.

Yanta's aim is to combat poverty by improving its members' living conditions and protecting the environment.

* * *

Burkina Faso's Ministry of the Environment, which is in charge of natural resources management, drew up a framework programme for sustainable forestry resources management for the years 2004 to 2014. The country's national policies emphasize the importance of poverty reduction through the principle of "sustainable natural resources management, reconciling the demands of economic growth with the imperatives of preserving ecosystem balance for present and future generations".

From 2006 to 2011, Luxembourg is funding the natural resources management project in the Bobo-Dioulasso basin for a total of 5,956,729 euros. Natural resources management is one of the two sectors of concentration of the indicative cooperation programme (ICP) between Luxembourg and Burkina Faso for 2008 to 2012. The

total ICP envelope is 62,900,000 euros. From the brochure *"La coopération ça marche!" (cooperation works) produced by the Ministry of Foreign Affairs of the Grand Duchy of Luxembourg, Department of Development Cooperation (April 2008).*

Another practical illustration of Luxembourg's efforts to fulfil its commitments under MDG 7 is the concentration of its cooperation activities on the water and sanitation sector.

(b) Luxembourg's cooperation activities in the area of water and sanitation

Supporting development activities in the area of water and sanitation has been one of the priorities of Luxembourg's cooperation programme for many years — a choice based on exchanges with the authorities of partner countries and on the needs identified in their national poverty reduction strategies. For all Luxembourg's partner countries, access to water and sanitation is a vitally important issue, either generally because of stress on water supplies nationwide (Cape Verde, Sahelian countries of West Africa) or because difficulties with regard to water supply and access to sanitation vary according to region or standard of living.

The reasons for this commitment are manifold. The fact that water is quite simply essential to our survival should be reason enough, but there are other elements too: without access to water and sanitation, developments in the health area cannot be lasting; water is essential for agriculture, which is by far the main means of subsistence in developing countries, particularly in Africa; and, lastly, water permits the preservation of ecosystems and the problem of access to water is a potential source of instability and insecurity and therefore a potential threat to some of the advances achieved in development, not to mention its geopolitical repercussions.

Luxembourg's cooperation programme does not have a uniform response to this problem. Instead, it looks at the local context and opts for one or other course of action on the basis of observed needs on the ground. The example of a water project in the Niger, described below, sheds light on the different elements involved and their socio-economic and health implications.

Access to drinking water promotes socio-economic development in rural areas of the Niger

Until recently, the village of Chikafane was one of many in the Dosso department of the Niger where drinking water is neither available nor accessible year-round. This village of 350 people, situated in Mokko commune in the far north of the department, has just got its first modern water point: a large-diameter, concrete well.

> "*Water has always been a huge problem in this village and all it had was a traditional well over 60 metres deep*" village chief Attani Goumey explains, adding that "*before this new concrete well was installed, we were able to meet only a tiny fraction of our water needs. As early as February, we had to travel to neighbouring villages or even to Batako, over six kilometres away, to fetch water for our families' needs. Men, women, everyone was mobilized to fetch water.*"

Fetching water took up a large part of the villagers' time, preventing them from spending it on other socio-economic, income-generating or sociocultural activities. The water problem was also the main constraint on the development of livestock rearing, despite the village being situated in a pastoral area.

According to 37-year-old Amadou Hamani, a peasant farmer in Chikafane, "*the acute shortage of water caused some families to consider migrating south, despite their attachment to the soil.*

With nothing but our traditional well, which was already nearly 50 years old and a nesting place for bats and birds, we were using muddy, unhealthy water, with serious consequences for the community's health."

The building of a concrete well has breathed new life into the village of Chikafane, supplying the population with adequate, safe water all year round.

* * *

The well was built as part of the land development project in Dosso department, drinking water supply being one of the priorities of the Niger's second poverty reduction strategy and hence an important component of Niger-Luxembourg cooperation activities in that department.

In addition to providing access to drinking water, the project helps ensure rural people's access to economic and social opportunities by improving natural resources management and building the capacity of public and private institutions and also rural organizations. For 2005-2009, Luxembourg's contribution to this project totals 8,459,556 euros.

From the brochure "La coopération ça marche!" produced by the Ministry of Foreign Affairs of the Grand Duchy of Luxembourg, Department of Development Cooperation (April 2008).

Water and sanitation activities are being supported in all Luxembourg's partner countries, most frequently as a component of a broader programme of integrated rural or urban development.

In this connection, particular mention should be made of the programme to improve the urban environment in Bamako, Mali. This programme, which includes a water and sanitation component, seeks to improve the broader urban environment and generally involves cleaning up unhealthy urban spaces and enhancing people's well-being by reducing the risk of disease.

2. *Integration of sustainable development principles in Luxembourg policy*

Policy formulation from a sustainable development standpoint is not feasible if each actor works in isolation, cut off from all outside influences.

In recognition of this fact and pursuant to the commitments made at the 1992 Earth Summit and the 2002 World Summit on Sustainable Development, Luxembourg put in place by act of 25 June 2004 a legislative framework for sustainable development that established an institutional structure and designated a number of instruments in order to ensure that sustainable development principles were better integrated in Luxembourg public policy.

The instruments defined by the act are a national sustainable development plan and a national progress report on sustainable development.

The national plan, drawn up every four years, specifies priority areas of action, practical objectives and the action to be taken with a view to sustainable development. The national progress report on sustainable development, drawn up every two years, describes Luxembourg's situation with regard to sustainable development and helps to draw lessons from past experience, whether positive or negative. Sustainable development indicators contained in the report are used to measure the progress made in sustainable development.

In addition to the Government, which is responsible for implementing the national plan, and the Parliament, which takes note of the national plan and the national report, two other organs created by the 2004 act are concerned with sustainable development.

The first of these is the Higher Council for Sustainable Development, responsible for considering, discussing and advising on sustainable development. It is composed of representatives of the Government, communes, trade unions, professional associations, employers, non-governmental organizations, the scientific community and the national ethics committee.

The second organ is the Interdepartmental Commission on Sustainable Development, composed of representatives of each ministerial department. It prepares the preliminary draft national plan and the national report and ensures that sustainable development principles are integrated in the different sectoral policies.

Lastly, civil society is actively involved in this process and is consulted regularly.

It should also be mentioned that an inter-ministerial committee on education for sustainable development has just been set up in Luxembourg to ensure that sustainable development issues are integrated more effectively in school curricula and courses.

Representatives of the Minister for Cooperation and Humanitarian Action participate actively in all these consultation mechanisms to ensure that Luxembourg public policy does not hinder the attainment of the MDGs.

Confronting the new challenges to sustainable development

(a) Climate change

Rapid environmental degradation and the steady loss of natural resources, as well as the growing challenges posed by climate change, require that public actors take a position on the issue.

The situation is even more pressing for developing countries, which are liable to suffer disproportionately from phenomena triggered by climate change when they are the ones least responsible for it. Unless swift, far-reaching action is taken, the situation could rapidly become intolerable for developing countries, especially insofar as food security and the increasing frequency of ever more extreme meteorological phenomena are concerned.

For some years now, Luxembourg's cooperation programme has been supporting developing countries' efforts to adapt to climate change. A decision has

been taken to step up these efforts in the coming years, as reflected in the policy statement on cooperation and humanitarian action made to the Luxembourg Parliament on 23 April 2008 by Jean-Louis Schiltz, Minister for Cooperation and Humanitarian Action.

Climate change and development

The Hyogo Framework for Action 2005-2015 was adopted in January 2005 and its signatories, including Luxembourg, undertook to help ensure that people were better protected against future disasters and to analyse and reduce risk factors, particularly in developing countries. It is in this spirit that since 2006 Luxembourg's cooperation programme has invested a minimum of 5 per cent of the humanitarian budget in disaster prevention.

(...)

Furthermore, at the beginning of this year, Luxembourg's cooperation programme decided to integrate issues of adaptation to climate change systematically in its development programmes. This does not mean that Luxembourg's programme is going to invent a new sector to add to its traditional sectors of water, health, education and integrated rural development, but rather that, in future, each new project will first be scrutinized to determine its potential impact on climate and its climate compatibility.

Of course, this will not happen overnight. On the other hand, we can rely on the fact that environmental questions have for years now been part of what are referred to as cross-cutting cooperation issues.

In other words, we have always analysed and integrated the environmental component in our different projects, so there is no need to start from scratch. We are going to systematize and expand this approach, placing particular emphasis on the climate and natural disasters components.

(...) I deeply regret that it does not appear possible to transform the United Nations Environment Programme into a genuine United Nations agency. No matter how important global or other alliances and mechanisms may be for climate, as long as there is no breakthrough at the United Nations — see also post-Kyoto and Bali — it will be very difficult to coordinate efforts adequately.

(...) There must be a closer interaction between environment policy and development policy.

We need climate justice. That too is part of international solidarity and demands efforts.

Along with others, I shall devote myself to the search for international solutions and to putting in place partnerships that will benefit developing countries, in anticipation of the 2009 Copenhagen conference.

From the "Policy statement on cooperation and humanitarian action" made by Jean-Louis Schiltz, Minister for Cooperation and Humanitarian Action, to the Chamber of Deputies of the Grand Duchy of Luxembourg on 23 April 2008.

Adapting to climate change is only one aspect of what needs to be done — direct action also needs to be taken to combat this phenomenon. Accordingly, in 1997 at Kyoto, Luxembourg pledged to reduce its greenhouse gas emissions by

28 per cent from 1990 levels between 2008 and 2012. Both the Chamber of Deputies and successive governments have upheld this ambitious project, recognizing both the need to tackle climate change and the important contribution that Luxembourg will have to make, given that its per capita greenhouse gas emissions are among the highest in the world.

A plan of action has been drawn up containing all kinds of measures to help Luxembourg meet these targets. It comprises a whole range of national measures, but also provides for recourse to the so-called "flexibility" mechanisms established in the Kyoto Protocol. An inter-ministerial committee issues opinions on initiatives evaluated for funding under these mechanisms. A representative of the Minister for Cooperation and Humanitarian Action also sits on the committee and, inter alia, issues opinions on projects implemented in the framework of the Clean Development Mechanism.

(b) Food security

Global population growth, the effects of climate change and other factors such as the growing interest in biofuels, as well as speculation, are all exacerbating the food security situation, thereby threatening the survival of the developing countries' most disadvantaged population groups.

Luxembourg, which has been involved in integrated rural development for many years now, has taken a number of steps to help ensure food security in the developing countries in the short term, but also in the longer term.

The first step was to increase by at least 50 per cent programmes designed to strengthen food security in Luxembourg's five partner countries in West Africa (Burkina Faso, Cape Verde, Mali, Niger and Senegal), which are among the countries where the situation could deteriorate the most.

The next step was the announcement, in Minister Schiltz's policy statement on cooperation and humanitarian action made to the Chamber of Deputies on 23 April 2008, of four key measures for overcoming the problem of food security, which are detailed below.

Four measures for overcoming food insecurity

1. Successfully conclude the Doha Round, in the interest of development. The principle whereby each continent has the right to organize its agricultural system as it sees fit must be decisive for the outcome of the negotiations.
2. Review, rebalance, reorganize and reduce all decisions on biofuels.
3. Invest tangibly, multifunctionally and sustainably in agriculture in developing countries, according a key role to biodiversity.
4. Make the connection between the challenges of climate change and those of development.

Achievements of Luxembourg's cooperation programme, for instance, integrated local development in the Ségou and Yorosso regions of Mali or the Dosso region of the Niger, where agriculture always plays a fundamental role, are already contributing to the goal of guaranteeing food security.

Lastly, Luxembourg's cooperation strategy in the area of humanitarian assistance, based on the three pillars of prevention, emergency assistance and transition to development, offers the necessary flexibility for integrating action to combat or, as the case may be, prevent the effects of climate change and food insecurity.